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World banking survey, Section III

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NEWS SUMMARY

GENERAL

Nato ministers gloomy on arms

Nato foreign ministers appear to have concluded that no chance exists for resuming U.S.-Soviet arms control talks this year and probably beyond.

Ministers who recently visited Moscow are expected to report renewed uncertainty over the Soviet leadership when a Nato ministerial meeting opens in Washington today.

Hans-Dietrich Genscher, the West German Foreign Minister, was in the Soviet capital last week and is likely to detail hardline attitudes encountered, and the apparent ill health of President Konstantin Chernenko, Page 16.

Herr Genscher announced at the weekend his intention not to lead his Free Democrat party into the next German elections in 1987, Page 2.

Beirut alert

Police and troops put a cordon around the American University of Beirut after U.S. intelligence warned that pro-Iranian militants planned mass kidnappings of U.S. academics and diplomats.

Dissident freed

Peter Uhl, 43, a prominent member of the Charter 77 Czechoslovak human rights movement, was released from prison after a five-year term on charges of subversion, emigration in Vienna.

Milk chief abducted

Angry French dairy farmers abducted the head of France's national milk board in Rennes, starting a police search across the Breton countryside.

Olympics letter

Olympic chief Juan Antonio Samaranch said he would take a letter for Soviet leader Konstantin Chernenko with him to Moscow tomorrow, in a final effort to prevent the Los Angeles Games boycott.

Catalan test

A Barcelona court ruled that it could not hear embezzlement and fraud charges against Catalan nationalist leader Jordi Pujol, heading a row facing Spain's Socialist Government, Page 5.

Fuel leak

Soviet railway freight wagons are so old and full of holes that 3 per cent of the country's annual coal output ends up between the tracks, reported Ekho, an economic journal.

Lebanese vote

The Speaker of the Lebanese Parliament fixed Thursday morning for a vote of confidence in Prime Minister Rashid Karami's "National Unity" Government.

Israeli verdict

Two Palestinians who hijacked an Israeli bus shed from blows to the head and body after capture by security forces, not during fighting as was first claimed, an official inquiry found, Page 2.

Taiwan reshuffle

The Taiwan Government reshuffled its Cabinet, days after a new premier was named, Page 2.

Egypt poll due

Final results are due today for Egypt's parliamentary elections. President Hosni Mubarak's party was expected to win easily in a low turnout, Page 2.

Briefly . . .

Eric Morecambe, British comedian, died at 88. Obituary, Page 13.

Landslide at a mining community in Dongchuan, south-west China, killed about 100.

BUSINESS

Tokyo to announce financial reforms

JAPANESE financial system reforms, due to be announced in Tokyo and Washington in the next 24 hours, are less stringent than the Bank of Japan had at one stage feared, according to a senior central bank official in Tokyo, Page 16.

EUROPEAN Monetary System trading was rather confused last week. The dollar lost ground on fears of another major bank experiencing financial difficulties, but the extent of the fall was limited by the effects of renewed tension in the Gulf war. Activity eased ahead of



Iranian threat to Arab states over support for Iraq

BY KATHY EVANS IN TEHRAN AND REGINALD DALE IN WASHINGTON

President Ali Khameni of Iran yesterday called on the Arab states of the Gulf to decide between neutrality and their support for Iraq.

Speaking at the inaugural session of Iran's new Majlis (parliament), the Iranian leader warned that, if the states chose to continue their backing for Iraq, "it is natural that they must make the consequences. This cannot be avoided."

He spoke amid heightened speculation, supported by U.S. satellite pictures, that Iran may be about to launch a new ground offensive against Iraq on June 1, the beginning of the month-long fast of Ramadan.

Last night on Iraqi television an unnamed brigadier told viewers "the Iranian enemy has completed its preparations for a new offensive on the southern sector. Iran has massed about half a million men on the border and logistical arrangements for a large-scale attack appear to be complete."

In the southern sector conditions have, at least until recently, made an offensive difficult - if not impossible - because of flooding of the marshes as a result of melting snow in the northern mountains and the deliberate breaching of Tigris dykes by the Iraqis.

One political reason for delaying the long-expected campaign has been the elections for the new Majlis and the need to obtain maximum solidarity in support of it.

Since Iraq began successfully attacking Iranian oil traffic last month and Iran retaliated by striking at Arab-owned vessels, Ayatollah Khomeini's regime has shown increasing impatience with the assistance given to Iraq by the conservative Arab oil producers of the Gulf and, in particular, their financial aid, now totalling at least \$30bn.

The new session of the Majlis, which is even more packed with religious fundamentalists than its predecessor, was opened with a message from Ayatollah Khomeini. He exhorted "all to save the country and Islam against conspiracies and differences."

No reference was made by President Khameni to the U.S. decision to rush to Saudi Arabia Stinger portable anti-aircraft missiles, with their launchers, and two KC-135 tanker aircraft for refuelling Saudi F-15 fighters in flight.

The U.S. administration dropped plans to supply Saudi Arabia with 1,200 Stingers two months ago, after Congressional and Israeli opposition. While there is still some opposition in Washington to supplying the sophisticated weapons to an Arab state, President Ronald Reagan was expected to go ahead with the deal under emergency procedures in the next day or two.

Fed pledge to maintain U.S. bank stability

BY PAUL TAYLOR IN WASHINGTON AND WILLIAM HALL IN NEW YORK

MR PRESTON Martin, vice-chairman of the U.S. Federal Reserve Board, said yesterday that the Fed was willing to do whatever is needed to maintain the stability of the U.S. banking system.

The Fed was prepared to "lend, lend boldly, and keep on lending," should any more major US banks run into liquidity problems, he said.

His remarks were seen as perhaps the strongest attempt yet by U.S. bank regulators, to calm the nerves of the financial markets and head off additional rumours like those which swept the markets last week. They came in response to a question about whether the Fed is willing to act again as it did two weeks ago to help halt a run on Continental Illinois, Chicago's biggest bank and the eighth largest in the US.

Since then, attention has focused on the major U.S. banks' lending, especially to Latin America. Last week this led to a serious erosion of investor confidence, sent bank stocks tumbling, battered the dollar and led to a "flight to quality" as investors scrambled to buy the shortest and safest paper - U.S. Treasury bills.

The investors' fears were heightened yesterday with the release of figures on the banks' exposure to the four most heavily indebted Latin American countries.

The figures show that the U.S. regional banks have cut their relative exposure times as quickly as the nine big U.S. money centre banks since the start of the international debt crisis.

At the end of 1983 the nine U.S. money centre banks had loans of \$40.4bn outstanding to Mexico, Brazil, Venezuela and Argentina, according to figures published by the U.S. bank regulators. This is nearly a third more than their entire capital of \$31.5bn.

Since Mexico's financial crisis in the autumn of 1982 the nine money centre banks have increased their lending to the four countries by \$2.6bn. The next 15 biggest U.S. banks had increased their lending by \$1.5bn to \$14.7bn but the 185 regional banks had reduced their lending by \$800m to \$12.7bn.

At the end of 1983 the combined exposure of the nine money centre banks to the four countries had reached 128.3 per cent of their capital. The next 15 biggest U.S. banks had similar exposure equivalent to 81.9 per cent of their capital.

The regional banks' relative exposure has fallen sharply, from 50.4

Sales of home computers run out of steam

By Louise Kehoe in San Francisco

THE WORLD home computer market seems to have run out of steam. Sales this year, widely forecast to rise to about \$3bn, are now expected to total little more than half that amount.

Manufacturers and market analysts have been surprised by a steep decline in sales over the past four months. They have noticed only recently that the usual post-Christmas slump was sharper and longer than expected.

Mr James Morgan, chief executive of Atari, the U.S. group, said shipments of his company's home computers in the first three months of this year were 35 per cent lower than in the first quarter of 1983.

Mr Sandy Gant, a specialist in the home computer market at Infocorp, a California market research company, said: "Since December we have significantly lowered our forecast for sales in the under-\$1,000 category for this year."

"The market is very soft right now," he said. "With a lot of advertising to boost sales in the autumn, we can hope for unit sales to equal those of last year at a higher average selling price."

Another market scorekeeper, Future Computing of Richardson, Texas, is also becoming more cautious. "We put shipments of home computers at 0.5m units this year, and that is optimistic. We may well downgrade those numbers again next month," says Dr Egil Juliusson.

Software publishers are even more gloomy. "I think the size of the home computer market has been grossly overstated," declares Mr Gary Carlson, vice-president of Broderbund Software, a computer games company.

Mr Trip Hawkins, president of Electronic Arts, publisher of several top-selling computer games, calls industry forecasts "completely ridiculous."

"If we (the industry) have a good year there will be about 1.5m units sold in the U.S., perhaps 2m worldwide,"

Even chip makers have noticed a downturn. Last week the Semiconductor Industry Association attributed a 2 per cent decline in industry order rates last month to personal computer makers' shrinking requirements.

Several factors have contributed to declining home computer sales. First, consumers became disillusioned.

Paris and Bonn agree on UK budget demands

BY DAVID MARSH IN PARIS

PRESIDENT Francois Mitterrand and Herr Helmut Kohl, the West German Chancellor, yesterday forced a common front to press for British concessions over the EEC budget issue ahead of next month's crucial Community summit at Fontainebleau.

Agreement to stand firm over UK budget demands came on the first day of a two-day Franco-German summit meeting here. As a key part of the Government's plans for closer ties across a range of political and industrial areas, the two sides are due to sign today a long-planned agreement to develop jointly an anti-tank helicopter for use in the French and German armies.

The helicopter project, in which the two countries hope eventually to interest Britain and other Nato members, will result in planned French and German orders for 427 machines worth DM 7bn (\$2.5bn) for use in the 1990s.

The helicopter deal, the latest in a long line of Franco-German aerospace projects in both the civil and military fields, was hailed last night by M Michel Vauzelle, the Elysee Palace official, as showing that growing defence co-operation between Paris and Bonn in strategic areas extended into armament collaboration as well.

The Franco-German summit, involving the two heads of government and 15 ministers from both sides, is intended to lay down fresh guidelines for co-operation not only on Community issues but also on bilateral topics such as links in telecommunications, computers and high-speed trains.

West German support for M Mitterrand's tough line over the British budget contribution was uncompromising. Following a first round of talks yesterday afternoon between the two government leaders, a German official said that the two sides had underlined that Mrs Thatcher was up against a "firm position of the Nine." Terminating the majority Community offer to Britain at the

Rain fails to dampen spirit of Bonn rally

BY RUPERT CORNWELL IN BONN

TO JUDGE from the rain which settled yesterday in an unremitting grey sheet over the capital of West Germany, even the Almighty is none too keen on the 35-hour week.

It was to be the big day; when 200,000 engineering workers descended on Bonn from all over the country and beyond, doubling the city's population, to prove their commitment to a shorter working week. And to a certain extent it was.

From dawn onwards the 80 special trains and 3,000 buses commissioned by IG Metall, the striking engineering union, disgorged their human cargoes, clad in their union's uniforms of yellow jacket and red plastic helmet.

In the afternoon they gathered at Bonn University, to hear Herr Hans

Dutch propose new UK gas deal to compete with Sleipner offer

BY WALTER ELLIS IN AMSTERDAM

GASUNIE, the Dutch natural gas corporation, has made a new offer to pipe gas to Britain on terms which it believes are competitive with those proposed for supplies from Norway's giant Sleipner field.

The news coincides with the announcement yesterday of a 24 per cent increase in the Netherlands' proven reserves of gas, from 1,500bn cubic metres to 1,900bn cubic metres.

Gasunie is now anxious to promote fresh discussions with foreign governments on the extension of existing gas export deals.

A series of new contracts could greatly ease the state's budget financing difficulties, and an agreement with the UK would be a valuable bonus.

The Dutch initiative follows talks earlier this year after Britain's Department of Energy urged British Gas to discuss a possible deal with the Dutch.

The British utility concluded, however, that the volume on offer was too small and the price was too high.

The British Government is understood to be enthusiastic about the Dutch option - which would entail a new pipeline from Callantsoog, 50 miles north-west of Amsterdam, to a terminal at Bacton, near Norwich, in England - while British Gas apparently prefers Sleipner.

The Norwegians are offering more than 1bn cubic ft of gas a day from around 1990. Gasunie is suggesting perhaps between 500m and 600m cubic ft a day but is pinning its hopes on its price and flexible availability.

It could also begin deliveries before 1990, if a decision on a pipeline is reached early enough.

The Dutch utility, jointly owned by Shell, Esso and Dutch State Mines (DSM), distributes gas from more than 140 fields in the Netherlands and offshore.

A new pipeline could add greatly to the British gas industry's bargaining strength with other would-be suppliers. It would also give Britain access to the continental grid, which could have potential for distribution in the opposite direction.

An obvious stumbling block is that British Gas and Statoil, the Norwegian gas concern, have already reached provisional agreement on future purchase.

Until last year, the Netherlands was distinctly uneasy about its gas reserves and had a policy of no sales abroad beyond 1980. It felt that the country's greatest single natural resource had to be jealously guarded for future generations.

Then, the state geological service pronounced that reserves were ample, at existing rates of depletion, to last until at least 2050. Now the reserves are said to be greater still.

UK offshore pay deal near, Page 8

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OVERSEAS NEWS

Botha calls for S. Africa to 'face realities of world'

BY OUR JOHANNESBURG CORRESPONDENT

MR P. W. BOTHA, the South African Prime Minister was due to leave the Republic last night on an eight-nation European tour, amid continuing moves over the independence of Namibia (south-west Africa).

The Namibian dispute is expected to be high on Mr Botha's agenda during his talks with European leaders, including meetings in London, Bonn and Lisbon.

Both the British and West German Governments are members of the five-nation Western contact group seeking a settlement in the territory, while Portugal retains close ties with Angola, its former colony and a key participant in the dispute.

Addressing a weekend rally of South Africa's ruling Nationalist Party, Mr Botha said South Africa had to "come out of the laager" and "face the realities of the world."

The Danish Folketing yesterday called for new restrictions on Danish trade with South Africa after a vote in which the non-Socialist Government was defeated by 85 votes to 75, Hilary Barnes writes from Copenhagen.

The Folketing demanded reductions in coal imports from South Africa by the publicly-owned power utilities and ordered the Government to make it clear to all companies and shipping companies that it is not consistent with Danish foreign policy for them to sell oil to South Africa or to transport products to South Africa in Danish ships.

Botha said: "We are not setting out on a campaign of conquest. The issue was raised in Lusaka at the weekend during talks between the U.S. Assistant Secretary of State for African Affairs, Dr Chester Crocker, and Dr Kenneth Kaunda, the Zambian President. Dr Kaunda initiated the current round of negotiations on Namibia when he hosted all-party talks earlier this month.

been made a pre-condition by South Africa to implementation of the United Nations' settlement plan for the territory.

But there have been tentative signs that this precondition, which has United States' backing, may be dropped or modified by Pretoria in exchange for a substantially reduced UN role in the run-up to independence. The issue was raised in Lusaka at the weekend during talks between the U.S. Assistant Secretary of State for African Affairs, Dr Chester Crocker, and Dr Kenneth Kaunda, the Zambian President. Dr Kaunda initiated the current round of negotiations on Namibia when he hosted all-party talks earlier this month.

The South African Prime Minister will be anxious to convince European leaders that progress over the dispute is indeed being made, as well as to argue that other recent events in southern Africa, including the signing of a non-aggression pact with Mozambique, marked the start of a new relationship with the Republic's black neighbours.

Mubarak poised for election win

CAIRO — President Hosni Mubarak's ruling National Democratic Party (NDP) seemed set for a big general election win yesterday, but the right-wing Wafd party may form the strongest opposition.

Early returns of votes cast in a poll marked by violence and low turnout among the 13m registered voters showed the NDP well ahead of four opposition parties.

Allocation of the 488 People's Assembly seats will be made final today, after computers finish working out the result of a complex new proportional representation electoral system.

The main challenge to the NDP came from the right-wing Wafd, a revival of a nationalist party formed in 1919 and now allied with the staunchly Islamic Moslem Brotherhood.

Interior ministry sources said Wafd, which only overturned a court ban on its existence in January, seemed so far to be getting one vote to every three for the ruling party.

Political analysts said this might fulfil predictions that the opposition would muster around 100 seats in the new chamber. This would be the biggest parliamentary opposition in Egypt since the 1920s. There were just 21 opposition seats

in the 392-seat chamber elected in 1979 under the late President Anwar Sadat in a poll which opponents alleged had been rigged.

Analysts said three other opposition parties did not seem to be getting as many votes as Wafd. Under the new system, any party which fails to get 8 per cent of the total vote cannot claim any seats.

The right-wing liberal socialists look likely to face electoral oblivion. Party officials conceded it was also an open question whether the left-wing nationalist progressives and Socialist Labour party would get 8 per cent.

Communists win another by-election in France

By David Housage in Paris

THE FRENCH Communist Party already appears to be reaping the fruits of its increasingly critical attitude towards the Government's economic and industrial policy.

For the second consecutive weekend, it won an unexpected by-election in retaining control of the municipality of Houilles, south of Paris, where the March 1983 results had been invalidated.

A week ago, Dr Paul Souffrin, the Communist mayor of Thionville in Lorraine was also re-elected in spite of Communist fears that the fresh steel closures in the region would tell against a candidate of the Left.

The Communists were also given a boost yesterday by the publication of a public opinion poll in the right-wing daily Le Figaro which showed that the Communists are the only major party to be gaining ground in the European election campaign.

The poll confirmed that the Communists have increased their percentage of the vote to 14 per cent as against 12 per cent in February.

The joint RPR-JDF opposition list, led by Mme Simone Veil, has lost five percentage points since February, falling back to 43 per cent of the vote.

It emerged over the weekend that the European elections will only be the first of two major political hurdles that face the Government this month.

The second stems from the decision by the Roman Catholic education lobby to hold a mass rally in Paris on June 24 to protest against the new Bill on private education which had its first reading in the National Assembly last week.

The rally is expected to gather 1m people - making it the largest demonstration in the capital since the march down the Champs Elysees in 1968 in support of President de Gaulle.

Though the organisers are attempting to limit the aims of the march to amending the Bill, it is likely to turn into a mass demonstration by the opposition parties against the Government.

The Communist Party said yesterday that the results confirmed their belief of a recovery in the party's electoral support. The Communists' gains are obviously embarrassing to President Mitterrand after his recent attempts to curb Communist criticism of the Government.

Return-to-work continues in Bombay area

BOMBAY — Army units will continue to patrol south-western India's riot-torn areas in case of a renewal of Hindu-Muslim clashes which have killed nearly 230 people, officials said yesterday.

Officials said large numbers of people were beginning to return to work in the region's textile factories after some 67,000 people fled the unrest.

In the town of Bhiwandi to the north of Bombay, where sectarian clashes flared on May 18, more than half the 40,000 textile power looms were back in operation yesterday, they added.

Meanwhile, in New Delhi, one man was killed and another seriously wounded yesterday when police fired on demonstrators outside the Bangladesh High Commission, police said.

They said the dead man was not a demonstrator but a passenger in a bus passing the mission. Two other passengers were slightly injured and one demonstrator was seriously hurt.

Police fired 20 rounds after repeated baton charges failed to disperse the demonstrators. It said more than 15 people were injured. Reuter

Genscher may rock coalition

BY RUPERT CORNWELL IN BONN

THE DECISION of Herr Hans-Dietrich Genscher, the West German Foreign Minister, not to lead his Free Democrat (FDP) party into the next general election in 1987 may well secure relative peace at next weekend's key FDP congress.

But this might be at the cost of adding to existing uncertainties over the future of the ruling centre-right coalition.

This was the prevailing impression in Bonn yesterday, less than 24 hours after Herr Genscher let slip the news, the timing of which caught even seasoned observers on the wrong foot, during a television interview.

It was time, he said, for a "younger man" to take over, indicating that his successor might be one of a "new generation of outstanding state chairmen of the FDP." Count Otto Lambdorph, the party's next most prominent national figure, and currently Economics Minister, has already hinted he will not be chasing the job.

Tactical considerations appear to have played a large part in the deci-

sion of Herr Genscher, 57, who has held the exhausting combination of posts of party leader and Foreign Minister, without a break for a decade.

Dissatisfied accusations that he had not been paying enough attention to party affairs have been evident for some while within FDP ranks. Then, earlier this month, came the debacle over the Government's proposed amnesty on tax evasion in connection with party political donations.

Herr Genscher first agreed to the plan in great secrecy, only to be forced by a gale of grassroots protests inside the party to change his mind. In embarrassment and no little anger, Chancellor Helmut Kohl was forced to withdraw the draft Bill for the amnesty.

Everything presaged a stormy FDP congress in Minister from Sunday, at which not only Herr Genscher's position but also his decision to jump horses from the SPD Social Democrats to the Christian Democrats in October 1982 would have been at issue.

Now that his departure by 1987 is assured, however, his party will be happy to confirm him as leader for two more years, and concentrate its energies on the most pressing question: the forthcoming European election.

The FDP desperately needs a convincing congress as a launchpad for the campaign. Recent regional election results suggest it will have a fight on its hands to secure 5 per cent of the vote, without which it will not be represented in the next Strasbourg parliament.

FDP spokesmen yesterday dismissed suggestions that Herr Genscher had any intention of quitting as Foreign Minister before - or indeed after - the 1987 election.

Even so, his announcement on Sunday will further cloud the muddy political waters in Bonn.

The personal understanding between Herr Genscher and Herr Kohl is crucial to the stability of the coalition alliance between the Chancellors Christian Democrats, the FDP, and the CSU of the rumbustious Herr Franz Josef Strauss.

Palestinians 'killed after attack on Israeli bus'

BY LYN RICHARDSON IN TEL AVIV

TWO OF the Palestinians who hijacked an Israeli bus six weeks ago were killed by blows to the head and body after the storming of the bus by Israeli security forces, and not during the counter-assault as the Israelis first claimed, the findings of a Commission of Inquiry show.

The Commission was headed by Mr Meir Zorea, a former controller of the Israel Defence Ministry.

It was set up after public pressure mounted for an explanation as to why the two terrorists, one of whom had been photographed being led away from the scene with no

apparent injuries, were later reported to have been killed when the Israeli troops stormed the bus.

The Commission says the two were dealt severe blows to the back of the head and body with blunt instruments. One died from a skull fracture and the other of head injuries.

Prof Moshe Arens, Defence Minister, said he regarded the behaviour that led to the deaths of the two men with the utmost gravity. Disciplinary measures will be taken against a number of members of the Israeli Security Forces who did not fulfil their duties, and further investigations are to be conducted.

Recognition grows for Arab society of accountants

BY BARRY RILEY

THE FORMAL recognition of the newly-formed Arab Society of Certified Accountants by Jordan last week is expected to be followed in the near future by recognition from four other Arab countries.

Incorporated only last January, with the assistance of one of the British accountancy bodies, the Association of Certified Accountants, the ASCA is now busily recruiting members throughout the Arab world.

According to its founding president, Mr Talal Abu-Ghazaleh, there have been more than 700 applications for full and student membership, with applica-

tions still coming in at the rate of 50 a day.

"The launching process has gone much faster than we expected," said Mr Abu-Ghazaleh. "We are already in orbit."

The ASCA's third council meeting in Amman last week agreed to set up a centre in Jordan and the society is also negotiating for premises in London. A three-man executive team has been recruited.

The idea of the Arab Society arose from a visit to the Gulf area in 1983 by Professor John Small, then president of the ACCA in London. Professor Small is now honorary adviser to the ASCA.

Hong Kong banks raise interest rates

By David Dodwell in Hong Kong

HONG-KONG'S prime lending rates were raised by 0.75 of a percentage point yesterday, to 12.75 per cent. The increase is the second in two weeks, but was shrugged off by the local stock markets where the increase had been expected. Hong Kong's Hang Seng index rose by 18.82 points to close at 919.31.

Since the Hong Kong dollar was pegged to the U.S. dollar last autumn interest rate movements have been the only mechanism available to the colony's banking authorities to regulate the flow of capital into and out of the economy.

In recent months, spiralling interest rates in the U.S. have led to a steady drain of investment capital out of Hong Kong.

Taiwan Cabinet shuffled

By Bob King in Taipei

THE Taiwan Government has reshuffled its Cabinet a week after President Chiang Ching-Kuo was sworn in for a second six-year term after his nomination of Mr Yu Kuo-Hua as Prime Minister received legislative approval.

The change in faces at the top, however, does not spell any policy changes for Taiwan. Policy is generally set by the ruling Nationalist Party and implemented by the bureaucracy.

If anything, the shape of the new Cabinet further increases the party's commitment to strengthening Taiwan's economy and the pragmatic technocrats who have worked to this end.

Singapore labour costs set to rise

By Chris Sherwell in Singapore

EMPLOYERS in Singapore face a sharp increase in labour costs from July 1 as a result of an average 10 per cent increase in wages and higher contributions to the country's national savings scheme for employees.

The Government yesterday accepted the recommendations of the National Wages Council for an 8-12 per cent wage increase, the largest rise since 1981. The recommendation is followed by most employers.

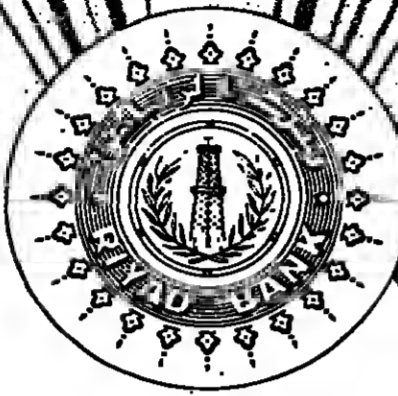
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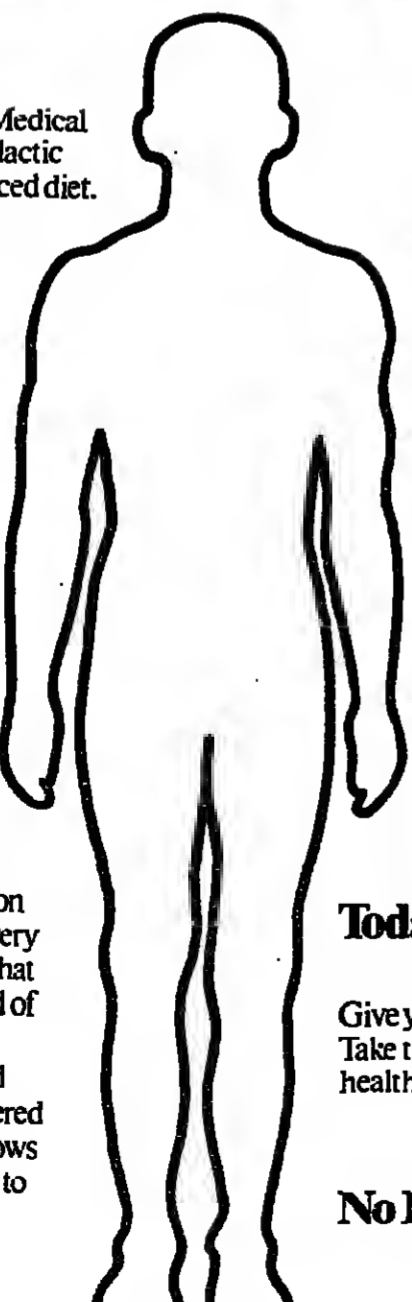
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EUROPEAN ELECTIONS

NORTH WALES: EEC MILK CURBS WILL LOSE TORY VOTES

Welsh referendum on dairy policy

"WE GET JOPPLED in April, and they expect us to vote for them in June." The farmer at Anglesey's Gaerwen cattle mart shook his head firmly. "It's just not on. No way."

Jopples is a word coined out of Michael Jopling, Minister of Agriculture. It means to be harshly treated, to have one's livelihood threatened. It stems from the Government's agreement a few weeks ago to a cut in Britain's EEC dairy quota, even if some financial help is offered later. The move has incensed the dairy farmers of north Wales that it could well cost the Conservatives the seat in next month's Euro-elections.

A 9 per cent cut in milk production threatens dairy farmers with a substantial loss of income, and some perhaps with bankruptcy. The fall in auction prices for milk cows has already reduced the value of stock by a third.

In one stroke, the deal has completely overshadowed the benefits of EEC membership which are more tangibly evident in North Wales than many other parts of Britain—Port Dinorwic power station, built with £77m of EEC money,

the holiday complex at Caernarfon, the Hoppoint factory at Rhyll, and the re-settlement grants for redundant steel workers at Shotton.

Beata Brookes, the vigorously vocal Conservative who won the seat in 1973, has made frantic attempts to avert the erosion of the hitherto solid farming section of her vote.

She has written to 2,300 farmers, sympathising with their plight, and demanding special financial help from the Government to ease the transition. She has criticised former agriculture minister Peter Walker and the Milk Marketing Board for encouraging expansion; and protested to Michael Jopling and Welsh Secretary Nicholas Edwards, about the sudden reversal.

But none of this had apparently impressed the farmers she met at Gaerwen last week. Scaunching heavily round the market lately modernised, from the helm of another £44,000 from Brussels—Miss Brookes got few words of cheer.

Based on the votes cast in last year's general election in the ten Westminster seats which make up this Euro-constituency,

the switch of the farming vote—just over 6 per cent of the total—would be enough to close the gap between the Tories and the Alliance.

But this—and the general decline in Tory support over the past year—may be subject to another aggravation. Miss Brookes was involved in a wrangle last year over the Tory nomination for the Westminster seat of Clwyd North West. She says that the struggle has left no bitterness. Sir Anthony Meyer, who finally got the seat, opposed her adoption as Euro candidate.

But Mr Gerald Morgan, former MP for Denbigh, who lost out in the struggle, last week regretted that he had "wasted the prime years of my life in the service of the Conservative Party." He publicly urged Tories not to vote for Miss Brookes but for "candidates of proven personal integrity" like Tom Ellis, of the Alliance, and Dafydd Iwan, of Plaid Cymru.

Mr Ellis seems best placed to take advantage of all this apparent Conservative disaffection. He was Labour MP for Wrexham for 13 years and an MEP from 1974 to 1979. As

a Social Democrat/Alliance candidate, he ran a close second to the Conservatives in Clwyd South West last year.

A Welsh speaker, and a familiar figure throughout North Wales, Mr Ellis looks a cheerful alternative choice as he campaigned in Criccieth last week. Especially—as he has reminded 80,000 voters by letter—they can register their protest on June 14 by changing their MEP without displacing the Government.

Neither of the other challengers appears to have quite so much going for them. The stocky Welsh Nationalist chairman, Dafydd Iwan, admits that Mr Ellis is likely to take a large share of the Welsh speaking vote. And while some of the Labour anger that waxed over Mr Ellis' defection to the SDP is waning, Mr Iwan's image still bears the scars of his youthful militancy in the nationalist cause.

Plaid Cymru's base in the west was hid enough to give it two seats at Caernarfon and Meirionnydd in the general election—but it is hardly a platform from which to capture this wide spread constituency.



A one time architect, Mr Iwan now runs a record company and sings robust songs about his cause—but only in Welsh, and that can have little meaning for voters in the Anglified east.

It is there, around the Labour held seats of Wrexham and Alyn and Deeside, that Labour's Ian Campbell is strongest. The Labour vote, he says, is growing, with many new party members. And, he correctly points out, it only needs a slightly higher swing from the Tories to Labour than to the Alliance to give him the seat.

But it seems doubtful whether the farmers will square his promise of a better deal for them with his pledges of cheaper food all round; or whether the almost extinct Labour vote in Anglesey and the West will be revived by his fervent faith, say, in unilateral nuclear disarmament.

Philip Rawstorne

'Greece first' rallying cry for Papandreou

By Andreas Ierodiakonou in Athens

DR ANDREAS PAPAN-DREOU, the Greek Prime Minister, pledged over the weekend to continue to fight for a special relationship with the EEC.

He accused the previous Conservative government of having failed to extract the maximum benefit from Community membership, by placing the interests of Greece second to those of Europe.

"The representatives of the Right said they were Europeans first and Greeks second. The European ignored them. Why should the EEC give more to those who are satisfied with crumbs?" Dr Papandreou told supporters gathered for a European election rally in the Peloponnese town of Patras, in the Prime Minister's home district.

The June 17 European vote is seen in Greece as a critical performance test for Papandreou's Socialist Party (Pasok). The Socialists ended nearly half a century of right-wing rule in Greece when they swept to victory in October, 1981, 10 months after Greece's accession to the EEC.

Both the Prime Minister and Mr Evangelos Averoff, the Conservative opposition leader, have launched a series of appearances around Greece in an effort to woo voters.

"We are waging a battle for a different kind of relationship with Europe, a battle for a different kind of Europe," Dr Papandreou said in his Patras speech, which served to introduce Pasok's main European election campaign slogan, "Greece first."

In a sign of the election fever gripping Greece, posters bearing the slogan and the Socialists' green on white rising sun emblem decorated the approximately 150-mile long Athens to Patras highway, taken by the Prime Minister's limousine convoy.

In his speech, Dr Papandreou repeated his government's commitment to boycotting Nato military exercises in the Aegean and closing down the American bases in Greece. He accused the Conservatives of having failed Greece's interests in keeping the country in the Western strategic camp.

MITTERRAND INITIATIVE

French strategy for Europe hopes to combine two goals

BY JOHN WYLES IN BRUSSELS

WAS President Mitterrand mounting a serious political initiative when he called last Thursday for new moves to deepen political integration within the EEC? Or was he largely seeking to boost flagging support for French socialist party candidates in next month's European elections?

The early consensus among many EEC Ministers and officials is that the French President was trying to do both. After grilling M Claude Cheysson, the French external affairs minister, several Ministers left an informal gathering of foreign ministers in the south of France at the weekend somewhat more convinced that Paris has new ambitions for the Community.

But they are clearly not yet fully thought out. In the meantime the President can hope to have scored some political points for his party by having demonstrated a statesmanlike enthusiasm and idealism for Europe in his speech to the European Parliament.

Other governments now expect M Mitterrand to pursue his idea of a new Treaty to extend Community law into wider policy areas at the summit he will host at Fontainebleau on June 25 and 26. Most agree, however, that this presupposes agreement either just before or early in the summit on the final details of long-term curbs on Britain's budget payments and on new guidelines to discipline EEC spending.

The President's call on "interested governments" to join in preparatory work on a new Treaty was widely interpreted as a readiness to see the UK excluded from such an EEC relaunch. Elysee officials have since been reported as stressing that this is not the case while Sir Geoffrey Howe, Britain's Foreign Secretary, was vehement at the weekend in asserting that Britain would want to be part of any discussions on a new Treaty.

The Danes are much more equivocal. Mr Uffe Elleman-Jensen, Denmark's Foreign Minister, told his national Parliament yesterday that top priority should be given to deepening co-operation within the framework of the existing Treaty of Rome. Danish sources say that any new Treaty would have to be the subject of a referendum which would inevitably open the still-controversial question of Danish membership of the Community as a whole. Privately, some British officials doubt that much more will be heard of Mitterrand's initiative after the European elections, but the indications from Bonn are that M Mitterrand's ideas may become the basis of a Franco-German campaign for greater political integration.

Scepticism

Paradoxically, there is rather more scepticism in Belgium and the Netherlands, where the pulse of European Union traditionally beats strongest. Ministers in both countries doubt the seriousness of French intentions, although they will probably do their best to encourage them.

Sir Geoffrey Howe was not alone at the weekend in recalling the fate of the so-called Genscher-Colombo initiative which began in 1981 as an attempt to secure a new Treaty of European Union and ended at the Stuttgart summit last June as a rather limp but "solemn declaration" in favour of making the Community work better.

During those negotiations France was pretty far behind the most advanced thinking on the future role of the European Parliament and on the use of majority voting. It was clever, however, of the French President to propose that the preparatory work on a possible new Treaty should be based on the European Parliament's draft Treaty on European Union since the one represents current political realities and the other a much more long-term dream. Significantly, M Mitterrand endorsed only the "inspiration" and not the detail of the Parliament's draft.

UK not excluded

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The Danes are much more

LUXEMBOURG: INSTINCTIVE SUPPORT FOR CO-OPERATION

Where Europe is part of everyone's day-to-day life

LUXEMBOURG should be a hotbed for anti-European Community sentiment. Two of its principal industries, steel and dairy farming, are being battered because of recent EEC decisions. Worse, the European Parliament is trying to close its Luxembourg offices.

But there is no noticeable anti-EEC movement in this tiny country, and unlikely to be any. Luxembourgers, who have been dominated throughout history by their more powerful neighbours, almost instinctively back any trans-national institution that promotes European co-operation.

Mr Nicolas Estgen, a Social Christian (conservative) MEP, says that a little country such as Luxembourg (population 364,000) would have no chance to survive economically on its own.

"The big countries have the power to protect their steel industries, for example, even if they are not as efficient as ours."

Mme Colette Flesch, the popular Foreign Affairs Minister, adds: "Europe is part of

our day-to-day life. We have 10 television channels, and everyone knows someone who works at the European Community offices."

European organisations, including the European parliament, are also appreciated for providing Luxembourg leaders with an opportunity for a place in the sun.

Mr Estgen, for example, was a vice-president of the last European parliament.

In other countries in the Community, the European Parliament elections are being used to the extent as a barometer on national issues.

In Luxembourg, this is not necessary because, for the second time, national elections are being held at the same time as the European vote.

The Conservatives and Liberals, who have formed a coalition government for the past five years, are expected to maintain their positions in the national parliament—23 and 15 seats respectively.

The Socialists may win most of the five new seats being added to the Chamber of

Deputies (to make a total of 64), especially in the industrial south where steel closures have hurt the governing coalition parties.

At the European level, most observers expect the Socialists to pick up a second seat at the expense of the Conservatives, so the distribution will be two for each of the three main parties.

There is no doubt about the level of participation in the voting. Citizens are obliged by law to vote. However, they may leave their ballots blank and in 1979 a few more people left European ballots blank than national ballots.

Some politicians fear that significant numbers of young people will leave their European ballots blank this time as a comment on the Parliament's lack of power.

In some countries the abstention rate will be taken as an indicator of indifference or hostility to the European Parliament. Most Luxembourgers want Strasbourg to have more power.

Election campaigning, like

most things in Luxembourg, is carried out discreetly. There is no television advertising, no canvassing of voters' homes, no walkabouts by politicians in shopping centres.

The main venues for meetings between the candidates and the voters are bistros and community halls in villages up and down the country. Politicians spend their evenings moving from bistro to bistro, addressing audiences of anything from a handful to 40 people. The atmosphere is usually informal, sometimes exceptionally so.

No single issue has as yet roused wide public interest. In either the national or European campaign, Luxembourg is well off by European standards. Unemployment is less than 2 per cent and the national accounts are comfortably in surplus. Inflation is running at just under 8 per cent but the country, which is in a monetary union with Belgium, cannot do much about it.

However, the politicians say they detect a general unease among the people about the

future. Mr Charles Goerens, a young Liberal MEP, says people see jobs disappearing in traditional industries and wonder what their children will do.

In the industrial south, the Socialists complain that the steel restructuring programme has been too severe. But their anger is directed at the Luxembourg government, not at the European Commission.

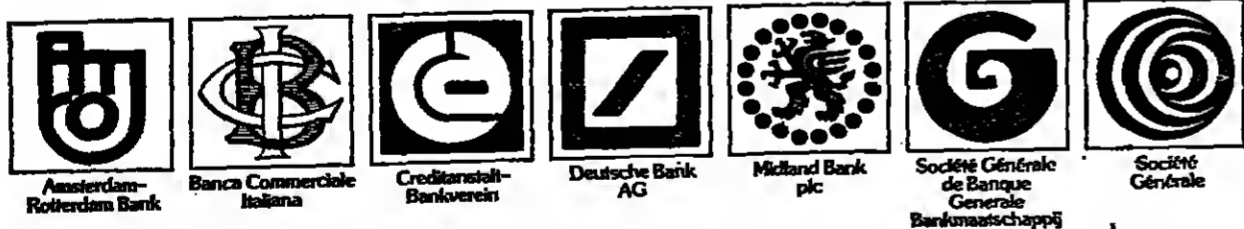
This is because the Government has supported the decision by Arbed, the leading national steel company, to share production with the Belgian steel industry and thus cut more of its own capacity than the Commission demanded.

Similarly, in the north, farmers are bitter about the cutbacks required in the dairy sector, but aim their attacks at the national government, not at Brussels.

The only thing Luxembourgers will make a fuss about will be the continuing efforts of the European Parliament to eliminate its Luxembourg office in a bid to save money.

Ian Rodger

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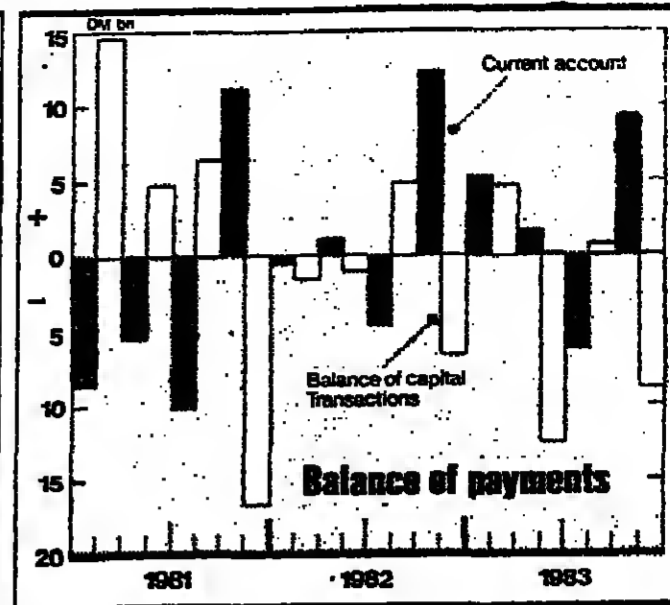
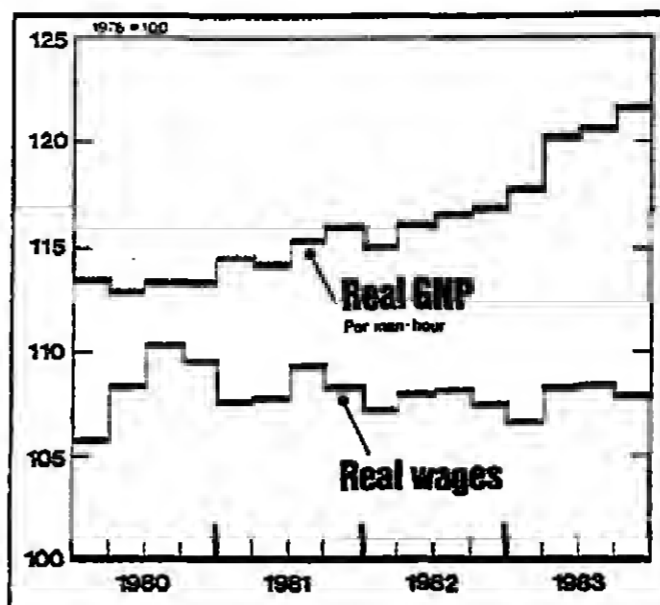
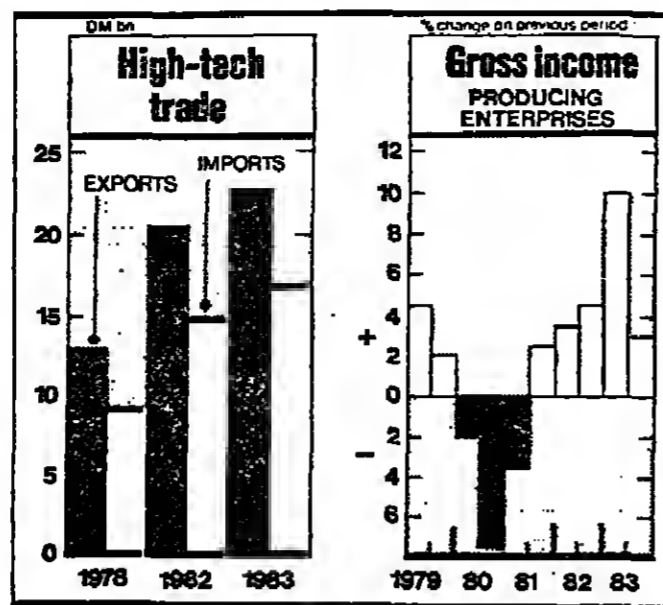
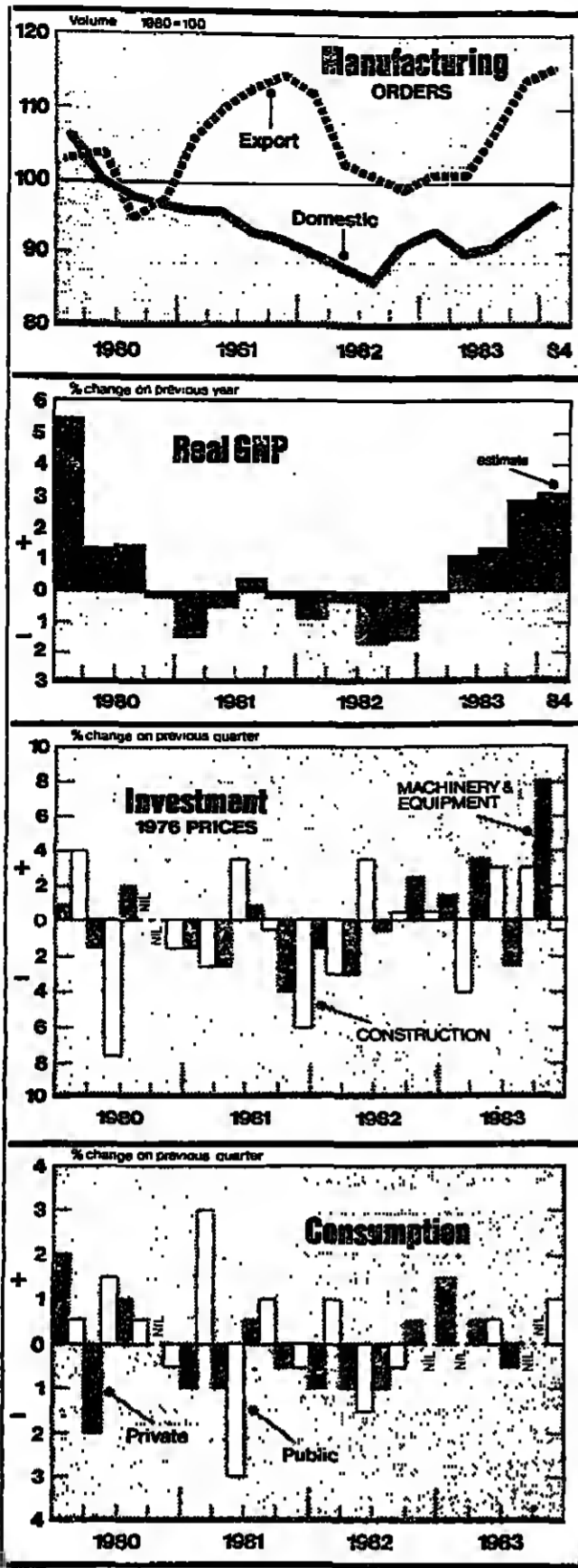


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STATISTICAL TRENDS: WEST GERMANY



Corporate investment is spur to growth

THE RECOVERY in the West German economy, which remained weak during much of 1983, was more firmly established by the beginning of this year. Real growth in gross national product for 1983 as a whole was only a little over 1 per cent, but the fourth quarter saw a rise of nearly 3 per cent on the corresponding period of 1982. Growth is expected to be sustained at around that level in 1984.

The main impetus has come not from higher personal consumption or increased public sector deficits, but from rises in capital investment by the corporate sector. Investment in machinery and

equipment is expected to show further strong growth in 1984, with a pick-up in construction investment. This is occurring on the back of a marked rise in corporate earnings during 1983.

The other main feature is a sharp rise both in exports and imports. This was also more apparent at the end of 1983 than at the beginning, with exports rising at an annual rate of 10 per cent by December. Fourth-quarter figures for the regional breakdown of West German trade show the steepest rises in exports going to the U.S.—up nearly 43 per cent on the previous year, and to Japan—up 20 per cent.

	1982	1983	1984*
Private consumption	-2.2	1.0	1.5
Public consumption	-1.0	-0.2	0.5
Capital investment	-5.1	2.9	5.0
Machinery & equip.	-8.5	5.7	8.5
Construction	-3.9	0.9	5.0
Exports	3.7	-0.9	8.5
Imports	0.8	0.8	8.5
GNP	-1.1	1.3	2.0

* Forecast. Source: Konjunkturforschungsinstitut

This pattern can be attributed to the stronger recovery occurring in those economies than in West Germany's EEC partners, and also to the D-Mark's depreciation against the dollar and yen.

Inflation slowed during 1983 and the rate of increase

in prices should stabilise this year. The only warning sign is the rise in import prices. These rose barely at all in 1983 but have recently begun to accelerate. Dollar import prices, including energy prices, have gone up partly because of the appreciation of the dollar.

About a third of German imports are denominated in dollars. The rise in the dollar has been attributable mainly to factors external to the German economy, notably the recent renewed rise in U.S. interest rates. So although West Germany's current account balance strengthened in 1983, and will probably improve

again this year, the D-Mark may still not rise appreciably against the dollar.

The main feature of the capital account in 1983 was a substantial increase in foreign investment in West Germany, especially portfolio investment. Worries about the maintenance of the upturn include anxiety about the outcome of the present campaign of strikes aimed at securing a 35-hour working week. The background to the dispute lies in the rapid rise in unemployment and the stagnation of real wages. Unemployment is still more than twice as high as it was at the beginning of 1981, although the rate of increase fell continually in 1983.

The data for yearly working hours shows that contractual hours, which fell more than 10 per cent between 1980 and 1979, and by 6 per cent in the following nine years, have hardly declined at all since 1979. Actual working hours, which were higher than contractual hours in 1970, are now lower because of a reduction in overtime and more short-time working. The good export performance has calmed some fears that West Germany is losing its competitive edge, especially in engineering. But worries about the high technology sector remain, despite the positive balance of trade in these goods which has strengthened since 1978.

	1979	1980	1981	1982	1983
W. Germany	3.8	6.2	5.1	3.5	0.2
Belgium	4.7	8.7	8.8	5.0	4.0
Denmark	7.9	10.7	7.9	5.1	6.5
France	9.5	13.6	12.4	11.6	10.0
UK	14.1	22.2	8.4	4.9	15.2
Italy	14.2	19.0	21.6	17.3	15.2
Netherlands	5.3	4.0	2.9	4.6	1.0
U.S.	9.0	10.0	7.2	7.5	3.0
Japan	4.7	4.0	4.5	5.2	3.0
Switzerland	2.4	3.3	5.6	6.2	4.0

* Gross wages and salaries per unit of real GNP. Source: Deutsche Institut für Wirtschaft.

	Seasonally adjusted		Number (000s)		% change over previous period	
	1981	% change over previous period	1981	1983	1981	1983
I	1,074	+6.9	2,179	2,179	+5.9	+5.9
II	1,194	+11.2	2,288	2,288	+5.9	+5.9
III	1,360	+12.2	2,317	2,317	+1.3	+1.3
IV	1,500	+11.3	2,281	2,281	-2.4	-2.4
1982	1,652	+10.1	1,984	1,984	-1.9	-1.9
I	1,738	+8.4				
II	1,895	+7.3				
III	2,057	+8.1				

Source: Bundesstatistik für Arbeit

	1980	1981	1982	1983
Contractual hours	2,124	1,899	1,784	1,772
Sickness	-113	-109	-103	-87
Overtime	+27	+78	+115	+85
Part-time	-20	-46	-59	-55
Lost time	-5	-16	-15	-25
of which				
Short-time working	0	8	2	16
Bad weather	0	15	12	8
Strikes, etc.	0	0	0	0
Actual working hours	2,085	1,909	1,723	1,885

Source: IAB

	1980	1981	1982	1983
German investment abroad*	-29.8	-27.5	-30.1	-34.6
Direct investment	-7.4	-8.8	-10.0	-10.4
Portfolio	-7.7	-6.0	-11.4	-10.4
Other	-14.4	-7.9	-8.3	-11.2
Official	-2.3	-4.0	-4.4	-5.6
Foreign investment in Germany†	+34.5	+35.9	+14.2	+22.2
Direct investment	+0.8	+0.8	+2.8	+2.9
Portfolio	+9.9	+11.0	+7.7	+13.8
Other	+23.8	+24.1	+8.7	+15.5
Official	+23.1	+23.0	+9.2	+12.1

* Excluding UK. † April. Source: Deutsche Bundesbank

	Exports	Imports	Balance	% change over previous year
Industrialised western countries	52.3	52.6	+19.7	+9.1
EEC	54.8	51.3	+3.5	+3.4
U.S.	16.6	7.3	+9.3	+4.1
Japan	1.7	4.5	-2.8	+29.1
Centrally planned	8.2	6.3	-0.1	+7.0
USSR	3.7	3.5	-0.7	+3.9
OPEC	7.7	7.3	+0.4	-20.5
Developing countries	8.6	9.2	+0.3	+6.7
Total	117.2	105.8	+11.4	+16.8

Source: Deutsche Bundesbank

	1982	1983	1984
Private consumption	5.2	3.0	3.0
Exports	4.2	1.5	3.0
Imports	2.3	0.5	2.0
GNP	4.9	3.2	2.0

Source: Konjunkturforschungsinstitut

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March 1984

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OVERSEAS NEWS

Reagan visit to Ireland may bring headaches

BY BRENDAN KEENAN IN DUBLIN

PRESIDENT Ronald Reagan's visit to his ancestral Irish roots this week, far from providing Dr Garret FitzGerald, the republic's Prime Minister, with a ready-made political triumph, may instead leave him with an uncomfortable political and security headache.

The origins of the protests which seem likely to mar the presidential trip probably lie in the funeral four years ago of Archbishop Oscar Romero of El Salvador.

The funeral of the archbishop, who was slain while saying mass, was attended by the then Bishop of Kerry, Dr Eamon Casey, and an enterprising reporter from the Irish broadcasting service, RTE.

When the funeral mass was also attacked by gunmen, her gripping tape-recording of the terror and carnage provoked an Irish interest in Latin American politics which has grown in the intervening years.

In Ireland opposition to Mr Reagan's policies centres on Nicaragua and El Salvador rather than cruise missiles, and the protest will be led by churchmen like Dr Casey, now Bishop of Galway, and a possible choice for the vacant archdiocese of Dublin.

The usual left-wing groups which might be expected to object to a U.S. president, and who could safely be ignored, now find themselves in the unlikely company of the more aggressive members of the Roman Catholic clergy.

Many lay and clerical Irish Catholics are working in the Third World and have been converted to the ideas of "liberation theology" - ideas viewed with suspicion by most Irish bishops and the Pope.

Dr FitzGerald's suggestion that Mr Reagan be given an honorary degree from the national university has split the university's academic staff.

A dozen parliamentarians, including one from the Government, say they will boycott Mr Reagan's address to both houses of parliament, and Dr FitzGerald's coalition partner, the Labour leader Mr Dick Spring, has been ordered by his party to protest to Mr Reagan about U.S. policies.



President Reagan: posing problems for FitzGerald

Dr FitzGerald has warned that further investment could be threatened by protests, especially if they were violent. The anti-Reagan groups reject this idea, saying U.S. investors come only because Ireland's tax breaks make it attractive to do so.

The threat to tourism is more real. Americans may not be too happy about marches in support of Nicaragua's Sandinista Government, and conservative Irish Americans may be estranged from a home country which has changed beyond recognition from 30 years ago.

In the end, the Reagan visit could have more effect on Irish Catholicism than anything else. Dr Casey plans to be diplomatically absent from Galway when Mr Reagan visits the city, where a cathedral built by the bishop contains a mosaic commemorating another U.S. president with Irish ancestry, John F. Kennedy.

But, as one observer put it: "The bishops are supporting in Latin America, things they would denounce from the pulpit if tried in Ireland." Mr Reagan's visit is an opportunity for liberals in the church to bring the arguments closer to home and not a few churchmen will hope the questions retreat, along with Mr Reagan, across the Atlantic.

Any U.S. President is, of course, used to protest, and the extensive security arrangements should ensure that there is no personal embarrassment or discomfort for Mr Reagan. But the matter is of great importance to the Irish themselves.

The U.S. holds a special affection for many Irish people, as the place where millions escaped from poverty and starvation at home in the last century, and where thousands have found opportunity since. Older people especially, will regard a protest, however well-intentioned, as ingratiate.

The Government's embarrassment stems from the warm reception given to Irish leaders in the U.S. Last March, Dr FitzGerald became the third Irish premier to address a joint session of Congress - a remarkable gesture to a small country. Substantial anti-Reagan protests in Ireland would provide a sharp contrast.

There are also fears that more practical harm could be done. U.S. companies are by far the highest foreign investors in the Irish Republic. The 30,000 people they employ make up almost half of those working in foreign-owned industry.

Catalan bank fraud case to be put to Madrid court

BY TOM BURNS IN MADRID

BARCELONA'S regional court ruled yesterday that it was not competent to hear charges of embezzlement and fraud brought by Spain's Attorney General against the Catalan nationalist leader Sr Jordi Pujol, who is President of Catalonia's regional government, and 24 other former senior executives of Banca Catalana. The charges are now expected to go before the supreme court in Madrid.

The ruling has fuelled still further the controversy over the Banca Catalana affair, fast becoming the most serious political test faced by the Madrid Socialist Government since it took office 18 months ago. The Attorney General's charges, made public last week, have prompted a virulent response in Catalonia against Madrid and the central Government.

Sr Pujol was re-elected President of the Catalan government in a sweeping electoral victory last month. He was the founder of Banca Catalana and its Chairman until he resigned in 1977 to devote himself to politics. He was first elected President of the Catalan autonomous government in 1980 and is regarded as the father figure of modern-day Catalan nationalism.

charges followed investigations by the Central Bank of Spain into the collapse of Banca Catalana in 1982 with a negative net worth of Ptas 139bn (£64.8m at today's prices). The Catalana banking group actively sponsored Sr Pujol's

The Barcelona court ruled 25-3 that only the Catalonian Supreme Court was competent to deal with the case according to the fine print of the Catalan Statute of Autonomy. This supreme local legal body has yet to be created and the decision on taking up the Attorney General's charges was effectively handed back to Madrid.

The Attorney General, foreseeing such a ruling by the Barcelona regional court, has already stated that he would press his charges before Spain's Supreme Court.

The high feelings in Catalonia at present reflect a consensus Catalan viewpoint that the Socialist Government in Madrid is attempting to discredit Sr Pujol and by extension the Catalan autonomy process. The legal suit is seen as being sponsored by the Central Government as a revenge for Sr Pujol's resounding local victory in elections last month at the expense of the Socialist Party.

Argentina speeds up talks with banks on debts

BY JIMMY BURNS IN BUENOS AIRES

HIGH-LEVEL negotiations between Argentina and commercial banks on the country's \$43.6bn foreign debt problem are being speeded up as a result of the recent Argentine commitment to reach an early agreement with the International Monetary Fund.

Sr Enrique Garcia Vazquez, president of the Argentine Central Bank, confirmed over the weekend that he had held talks with Mr William Rhodes of Citibank and chairman of the steering committee in charge of Argentina's foreign debt.

No foreign bankers were available for comment yesterday on Mr Rhodes's surprise visit to Buenos Aires at the end of last week. But, Sr Vazquez said that the talks reflected a wish to find a solution well before the new quarterly deadline for U.S. banks on June 30 as opposed to another round of brinkmanship.

Sr Vazquez confirmed that talks with the IMF "were going very well" and that a letter of intent would be ready by the end of the month or within a few days after that.

Belgrade-IMF prices move

BY ALEXANDAR LEBL IN BELGRADE

YUGOSLAVIA and the International Monetary Fund have patched up their differences over the Yugoslav pricing policy. This means that the fund will release the first tranche - \$100m - of the \$370m (£284m) standby credit for 1984 and that Yugoslavia will free totally prices on some 55 per cent of goods.

As at May 3 the freeze on prices of some 20 per cent of goods, introduced in mid-

December of last year, was lifted while prices of some 35 per cent of goods were freed subject to a 30-day notification to the authorities.

It was this notification the IMF objected to. The aim of the Yugoslav Government was to slow inevitable price increases. If this is at least partly achieved, nothing stands in the way of the measure being completely revoked.

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The Stock Trustee has therefore arranged for the preparation of a Booklet containing such information together with detailed information concerning the procedures Debentureholders should follow in electing whether or not to extend the Debentures. This Booklet will be available upon request on and after May 22, 1984 at the offices and addresses stated below:

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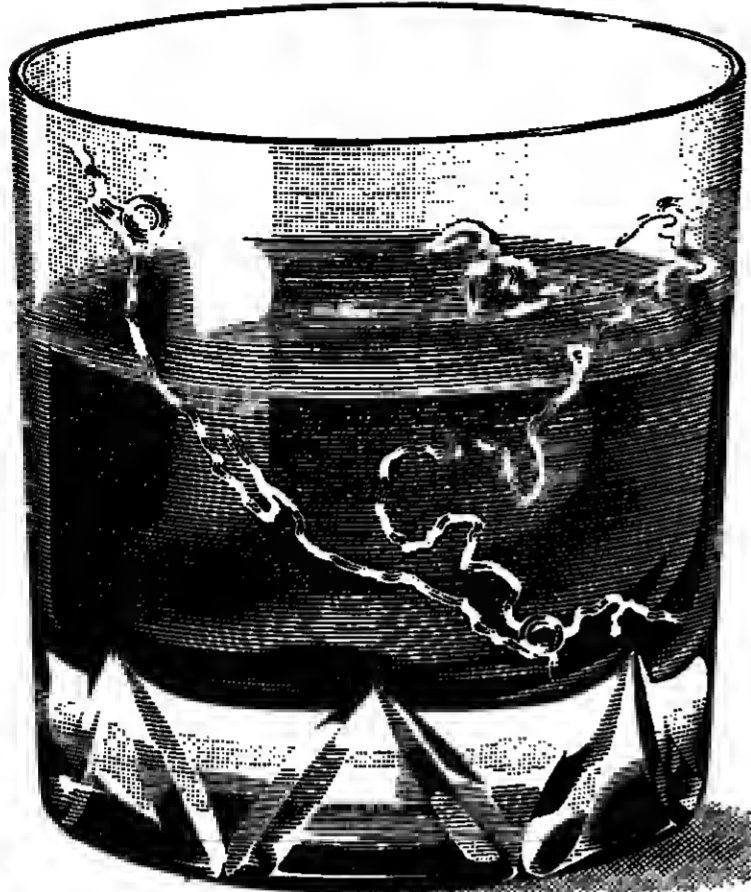
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OVERSEAS NEWS

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THE CLASSIC SCOTCH WHISKY ANYWHERE

Paris and Bonn have agreed to back key projects, Peter Marsh reports
W. Europe set to join U.S. space station programme

WESTERN EUROPE is virtually certain to participate in the U.S. programme to build a space station, following an agreement between France and West Germany, the continent's major space powers, to support two projects closely associated with the orbiting outpost.

French officials have said they will back the Columbus project, proposed by West Germany, with support from Italy, which would provide modular units, for example, for scientific experiments, that could be fitted to the U.S. station.

In return, West Germany will support a programme favoured by France to develop a powerful cryogenic engine—a motor fuelled by liquid oxygen and liquid hydrogen—for space vehicles.

The engine would form a key part of a new version of the Ariane launch vehicle that could ferry people or materials to the space station.

In January, President Ronald Reagan asked Western Europe, together with Japan and Canada, to help build the SShn (£5.7bn) orbiting base, which

should be assembled by the early 1990s.

The U.S. President is likely to ask for broad approval for the scheme at next week's seven-nation economic summit in London.

The European nations have agreed that any collaboration will be through the 11-nation European Space Agency (ESA), based in Paris. France and West Germany want the Agency to commit itself to Columbus and the new engine later this year, probably in October.

That would leave the way clear for a formal decision, probably by spring next year, to collaborate with the U.S. on the space station.

Although some of ESA's other members have their reservations about the two new projects, mainly on grounds of cost, they are likely to fall in with the main thrust of the Franco-German initiative.

These two countries contribute nearly half the agency's annual budget of \$70m and the organisation would virtually fall apart if they did not get their way.

According to one German official, Columbus and the cryogenic engine would, respectively, cost about \$800m and \$600m to develop. The first version of the Columbus module would be ready by 1990.

Based on the space job, which ESA has already developed for trips into space inside the U.S. space shuttle, Columbus in its initial form would depend on the U.S. core of the space station, for example, for computer and life-support systems.

Later versions would be independent, giving Western Europe the capability to build its own manned space station, perhaps after the year 2000.

The main difference between West Germany and France is that the latter would like to push on far more quickly with the new launch vehicle in which the cryogenic motor would be a key component.

Called Ariane 5, this would be able to send to the space station teams of astronauts inside a small space "tug" called Hermes.

As a prelude, the French National Space Agency (CNES)

is considering setting up later this year a pool of about five part-time astronauts.

These people would have jobs in electronics or space research, for example, and participate in forays out of the atmosphere, perhaps once every three years, initially as guests on U.S. or Soviet space vehicles.

France is particularly keen that the U.S. jets vehicles, other than its own space shuttle, dock with the orbiting base. "If the U.S. doesn't agree to this, then we won't participate," says M. Frederic d'Allest, director-general of CNES.

France says the annual budget of ESA should increase by 50 per cent by 1990 to accommodate the new schemes. West Germany attaches less importance to Ariane 5 and thinks the budget should increase by only about 20 per cent.

Another difference is that France is more keen on using an orbiting base for manned intervention with space vehicles, for example, to repair faulty satellites.

CNES officials are also study-

ing the use of space outposts for military purposes, for example, for tests with laser weapons.

West Germany, in contrast, is enthusiastic about turning out new and exotic materials in the low gravity of space.

Other countries fear that Europe could gain more from collaboration with the U.S. by concentrating on specific technical disciplines—for example, ways of achieving automatic docking with space craft, or new communications technologies, rather than by backing large expensive schemes.

"I'm trying desperately to avoid the politics and push the agency towards a programme that is technologically intelligent," one influential ESA delegate said.

Another concern is the running cost of the station, which could be as much as \$2bn a year. According to some nations, Europe could end up paying a large proportion of these costs, which it is feared would financially cripple the space agency.



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Hostile reaction likely
to unions' report

BY IVO DAWNEY IN BRUSSELS

WORKERS SEEKING to reduce their weekly hours to create more jobs must fight for major time cuts over as short as possible a period if the move is to have maximum effect.

If possible, their negotiators should also seek to incorporate agreements on replacement staff to make up the lost productivity as part of the agreement.

These are among the controversial conclusions of a report, pub-

lished yesterday by the European Trades Union Institute, on the practical effects of the seven-year battle by its parent organisation, the European Trades Union Confederation, to reduce the working week to 35 hours.

The study is certain to provoke hostile reaction from many employers, particularly in the light of current industrial action for reduced weekly working in West Germany that has brought tens of thousands of workers out on strike.

It is accompanied by two parallel reports on the economic cost of unemployment in western Europe and the use of public investment to boost job creation.

The broad strategy of the three documents is to argue for a substantial attack on unemployment through reduced working hours and state spending. The paper on working time says that reduced weekly hours can be achieved without loss of production by restructuring of working methods and heavier emphasis on automation.

Swiss bankers' code
'should become law'

BY JOHN WICKS IN ZURICH

SWISS BANKS should be "categorically forbidden" to give active support to the transfer of fugitive funds from abroad, according to Mr Otto Stich, Social Democratic Minister of Finance.

The minister, speaking at a meeting of regional and savings banks in Lucerne at the weekend, said that despite the recent rejection of the "banking motion" in a national referendum, bank secrecy must not become a carte blanche for tax evasion.

"We shall therefore use all means to bring about the observance of existing laws, as well as considering how loopholes can be closed," he said.

Mr Stich called for inclusion in the revised Banking Act of a code of conduct which currently forms the subject of an agreement between the Swiss Bankers' Association and the Swiss National Bank. This agreement, which expires in 1987, prohibits the "active aiding and abetting of capital flight, tax evasion and similar acts," as well as

laying down rules by which banks can identify the source of funds placed with them.

He added that there should be a "clarification" of the co-operation between the Swiss Banking Commission, the control body responsible for the financial sector, and corresponding foreign authorities, as well as that between the commission and the National Bank.

Only last week, the Swiss National Bank had expressed reservations as to how well the agreement was working in stopping banks from giving active support to fugitive capital movements. It said the agreement would not be renewed and called on the banks to draw up a voluntary code of ethics.

The minister also called for a clause covering depositor protection in the revised banking act, which is currently in the process of drafting. The clause would be a banking measure to the voluntary protection agreement initiated this month by the bankers' association.

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WORLD TRADE NEWS

GEC poised to win India power station deal

By John Elliott in New Delhi

GEC, the UK industrial conglomerate, is on the brink of concluding a \$150m contract to build a power station in India for Bharat Aluminium, a government-owned production company.

The Indian Government is understood to have accepted an outline financial package offered by the UK which includes grants totalling almost \$100m to help cover a substantial proportion of the cost of over \$120m of imported equipment.

This is the first major power station order won in India by the UK for two years. In 1982 NEI was awarded a \$230m order for a 1,000 Megawatt station on the national grid at Bhandra in Uttar Pradesh by the National Thermal Power Corporation.

GEC's main competitor has been Bharat Heavy Electricals (BHEL), India's state-owned power station contractor, which lobbies hard against orders being placed abroad.

BHEL put in its bid to build the 270mw station last June but was overtaken by GEC which organised a counter bid backed by the UK Government. The fact that a substantial proportion of the cost of imported equipment will be covered by grants reduced the power of BHEL's arguments.

The Bharat Aluminium plant is part of a substantial programme to build power stations outside major industrial establishments to offset shortages in the country's public grid.

David Brown adds from Stockholm: A consortium of companies led by Asea and the state-owned Gotaverken Energy Systems, will divide an SKS \$10m (£74m) order for a coal-fired electrical generating plant, understood to be one of the largest ever won by Swedish companies from India.

The order, for a turkey 168 Mw plant, has been placed by Indiar Charge Chrome Limited (ICC) which is expanding its production facilities for strategic ferrochrome alloy in Chondwar, South-west of Calcutta.

The electrical plant will eliminate ICC's dependence on outside sources of power.

Some tanker owners see high profits in risk

Shipping Report: By Andrew Fisher

THE TANKER market was given a sharp twist late last week by the hiking of hull insurance rates from 3 per cent to 7.5 per cent for the key Iranian oil terminal of Kharg Island. In the wake of a string of attacks on merchant shipping in the Gulf, business from the region has faded.

There have been reports, however, of privately arranged fixtures from Kharg Island. No details are known, but rates of two or three times the World-

scale 35 prevailing two months ago have been mentioned for such deals.

E. A. Gibson Shippers said there was "a hard core of shipowners who are prepared to run the risk for the extremely rich rewards available." Thus any owner who gambled re-

cently by purchasing a big tanker in the hope of a sudden upturn in business could now find the judgment vindicated.

Some brokers reported that a large tanker was fixed from the Saudi port of Ras Tanura to Western destinations, but there was no confirmation. The steep

rise in insurance rates, though not applying that far South, could boost overall rates by a further 10 to 15 per cent, one said.

Rates for smaller ships of below 100,000 tonnes also jumped last week, noted Galbraith, since they were also vulnerable to attack. Much depended on whether owners could get crews to enter the danger zone.

Hopes among some owners of

high risk business showing high profits, could also slow the movement of tankers to the scrapyards. Virtually the only area of employment for VLCCs (very large crude carriers) is the Gulf.

But one tanker was said last week to be destined for the shirebreakers. That was the Safina Al Arab, a recent casualty of the Gulf warfare. It has reportedly been bought for demolition in Taiwan for some \$4.3m.

Japanese look at local assembly for car growth

By Kenneth Gooding, Motor Industry Correspondent

ASSEMBLY outside Japan will provide most future expansion for Japanese car makers, according to the latest report from DRI Europe, the London-based forecasting group.

This new direction has already started. Last year Japanese exports of built-up cars rose by only 1 per cent from the 1982 level while shipments of KD (knockdown) kits for assembly elsewhere jumped by 30 per cent.

DRI suggests that by 1990 the Japanese industry will be exporting at least 900,000 kits a year, judging by the manufacturers' current plans "and the figure could easily reach 1.5m."

The change has been promoted because the cost penalty of setting up local assembly plants compared with exports from Japan has been greatly reduced. Assembly has become a capital-intensive rather than a labour-intensive process now that robots can carry out so many operations.

DRI says the great majority of the kits will be destined for the industrialised countries such as the U.S., Western European countries, South Africa and Australia. It predicts that Mazda and Mitsubishi are likely to follow Honda and Nissan into local car assembly in the U.S.

The Japanese also have in mind the spread of protectionism in the West, the report points out. DRI suggests that the current voluntary restraint agreement which in the year to next April will restrict Japanese car sales in the U.S. to 1.85m will be replaced by a "crude marketing" agreement similar to the one between the Japanese and UK industries. This has the effect of keeping Japanese car sales in Britain below a certain percentage of the market.

The report maintains that during the period of voluntary restraint in the U.S. the Japanese have been breaching the spirit of the agreement with "back door" shipments via third countries such as Guam. "This seems to have provided a significant cushion for U.S. dealers in Japanese products."

DRI World Autos Forecast Report for 21 countries, £900 from DRI, 30 Old Queen Street, London SW1H 9HP.

New Gatt ruling more favourable to EEC

By Christian Tyler, Trade Editor

THE EUROPEAN Community has succeeded in altering the unfavourable verdict of the panel set up to adjudicate on Washington's complaints that U.S. exports of raisins and tinned fruit to Europe are unfairly hit by Common Market production subsidies.

EEC negotiators at the General Agreement on Tariffs and Trade (GATT) in Geneva had refused to accept the Gatt panel's first ruling three months ago. They protested in particular that the special case of Greek raisin producers had not properly been taken into account.

The tinned fruit dispute is the latest of a number of trade battles over agricultural products between the U.S. and the EEC, to come before the Gatt. Previous disputes, such as those over subsidised exports of wheat flour and pasta, show that a clear-cut verdict accented by the loser is rarely achieved.

The panel's second report excuses the arrangement made for Greek producers of dried grapes on their country's accession to the Community, and modifies its earlier judgment on canned peaches, pears and fruit cocktail.

Iraqi pipeline deal boosts Jordanian port

By Rami Khouri in Amman

JORDAN'S Red Sea port-resort of Aqaba, a transit link for imports into Iraq, is acquiring a new role as an export point for Iraqi industrial products, and now even crude oil.

The Jordanian and Iraqi Governments last week reached formal agreement on building a 1,030-mile pipeline from Southern Iraq to Aqaba for the export of Iraqi crude and to feed a new petroleum refinery planned for Aqaba.

The new pipeline will be a further allip to the small city of Aqaba, which now plays a key role in the economies of both Jordan and Iraq.

As Jordan's only outlet to the sea, Aqaba port has grown briskly in the oil-fuelled boom decade since 1974. It has undergone two major expansion projects since 1978, allowing it to quadruple the cargo it has handled to over 11m tons last year.

A \$60m container terminal equipped with roll-on-roll-off berths, straddle carriers and gantry cranes will come into service later this summer, allowing Aqaba to handle the huge, third generation gearless container vessels that will dominate containerised shipping in the future.

Mr Mardhi Qatameen, the port director, is confident the expanded port will be able to handle Jordanian, Iraqi and

other states' cargo requirements until at least 1995. Half of last year's total imports of 6m tons were transit traffic to Iraq, and during the past year Iraq has started to export some fuel oil, sulphur and chemical fertilisers from Aqaba.

Mr Qatameen's strategy further to develop Aqaba as an attractive transit point for other nearby Arab states is based on a combination of competitive port and land transport rates, efficiency (there is no delay in unloading ships at Aqaba), and modern facilities. He expects the port to handle about 12m tons of cargo this year.

Aqaba has a long history of serving the regional interests of Middle Eastern powers, dating from the time of King Solomon. Most notable is its recent importance as an export point for Jordanian products and an industrial centre. Last year, 3.7m tons of Jordanian

raw phosphate rock was exported from Aqaba, and 5m tons of phosphate exports are anticipated this year.

The new chemical fertiliser plant will export nearly 1m tons per year of phosphate-based fertilisers and industrial acids at full production next year. Its separate berth also will be used to export the 1.2m tons per year output of the Arab Potash Company, 186 miles north along the shores of the Dead Sea.

The speedy development of the port has been accompanied by a town planning effort that is something of a model for other cities in the region. Aqaba was a sleepy, sunny, picturesque fishing village of just 9,000 people in 1961.

Its population has since more than quadrupled but thanks to a city plan developed in the early 1960s and strictly followed the growth has been both orderly and balanced. Commercial, industrial, tourist and residential districts are clearly delineated.

Future industrial schemes, such as the possible new refinery, will be hidden behind the mountains. Vehicle access to the industrial area in the south and the port will be provided by a new ring road running well away from the city centre. The attractions of a crystal-clear sea and equable temperatures cooled by a northerly breeze seem unlikely to be spoilt.



Jordan will meet two-thirds of the estimated \$950m cost. Iraq's share will be financed from oil revenues and through oil transit tolls in Jordan. The pipeline will be built by the U.S. Bechtel Corporation.

It is understood that it will have a capacity of around 1m barrels a day and that construction will take two years. Iraq's oil exports are presently limited to only one supply route—the pipeline through Southern Turkey.

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WORLD ECONOMIC INDICATORS

	000s	UNEMPLOYMENT			
		Apr. '84	Mar. '84	Feb. '84	Apr. '83
UK		2,106	2,143	2,186	2,170
	%	13.0	13.3	13.4	13.3
U.S.		8,843	8,772	8,801	11,369
	%	7.8	7.8	7.8	10.2
W. Germany		2,292	2,527	2,529	2,287
	%	8.9	9.4	9.4	8.8
France		2,247	2,258	2,252	2,017
	%	9.8	9.9	9.9	8.8
Italy		3,085	3,003	2,960	2,739
	%	12.3	12.3	12.1	12.1
Netherlands		825	828	843	768
	%	14.9	15.3	15.4	13.7
Belgium		574	589	602	543
	%	14.0	14.4	14.7	12.8
Japan		1,710	1,658	1,630	1,650
	%	2.7	2.7	2.6	2.7

Source (except U.S., UK, Japan): Eurostat

Romania opens Black Sea canal

By Leslie Colitt in Berlin

ROMANIA has opened a 2bn vada to Constanta on the Black Sea and has three new inland ports along its length, as well as a new seaport, Constanta Sud, which will be able to handle 150,000 tonne dwt bulk carriers. Goods are to be transhipped at Constanta Sud from 5,000 tonne cargo vessels, which the canal can handle.

Under a new law, foreign companies will be able to rent berths, warehouses and other facilities at the new seaport. Rates for use of the canal are yet to be announced. The canal has been built to carry 75m tons of freight a year but Western

shipping operators doubt that it will attract that much business. It will be several years before it can be used by the West Germans, who are expected to be the main customers. The Rhine-Main-Danube canal in Southern Germany must first be completed before a through-waterway will exist from the North Sea to the Black Sea.

The plan for the canal envisages the creation of new industries along the waterway and the irrigation of millions of hectares of farmland in the arid Dobrogea region.

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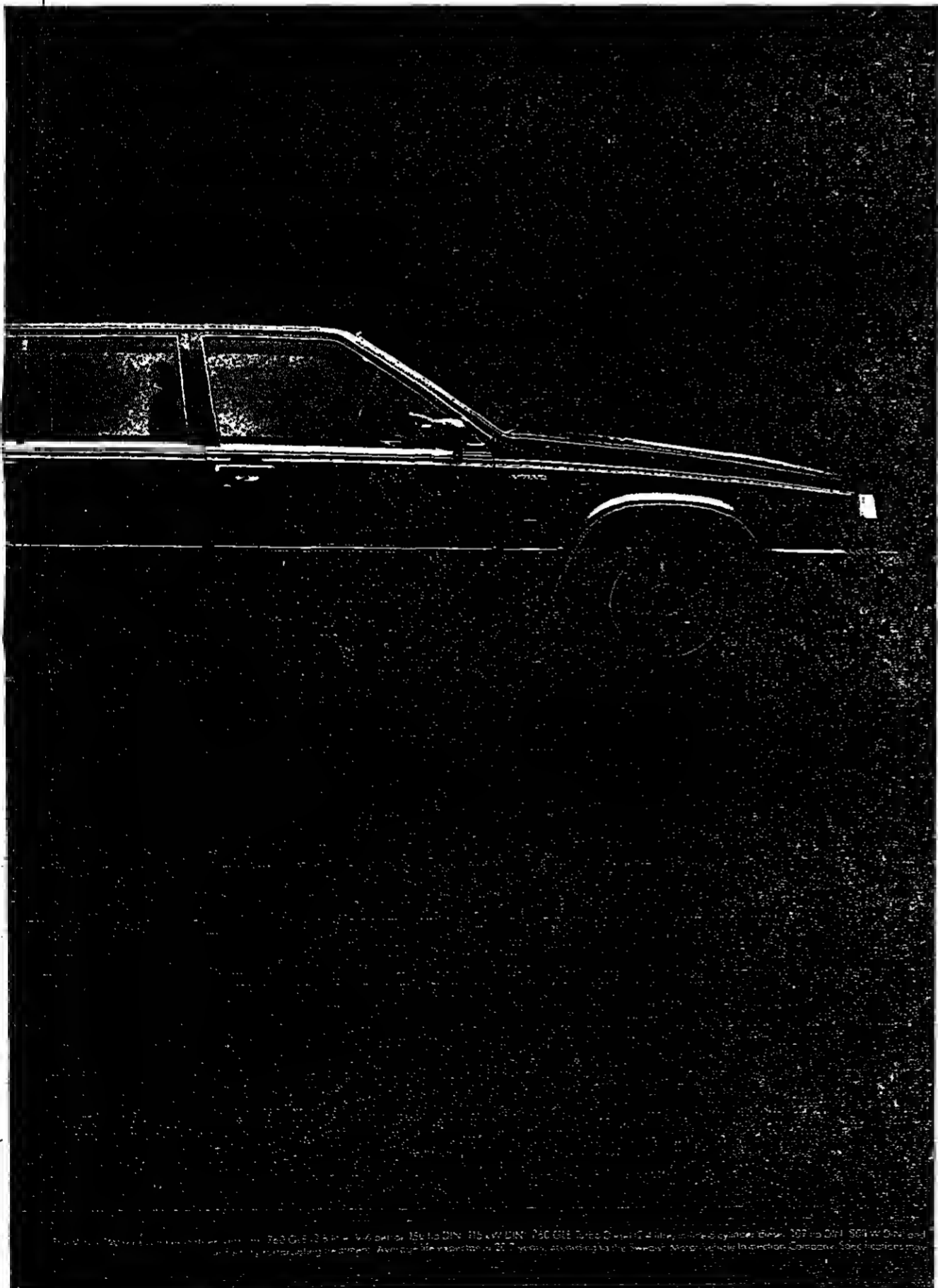
Complaints over Swiss arms deal

SWITZERLAND'S largest arms deal, the purchase of 210 Leopard II tanks worth nearly SwFr 2.4bn (£810m) from West Germany, could be in jeopardy, Anthony McDermott writes from Geneva.

Agreement to buy them was reached in principle last August, and a further purchase of another 210 tanks is also at stake.

The Swiss Parliament is complaining about the cost of the purchase. According to the Defence Ministry in Bern, 35 of the tanks which are being bought "off the shelf" from Krauss-Maffei of Munich are about 35 per cent cheaper than those which are to be produced under licence in Switzerland.

The Government says however that the remaining 175 to be built under licence will ensure employment for some 1,000 workers at Buehler-Contraves of Zurich over the next eight years.



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UK NEWS

Team to seek more exports to Italy

By Tim Dickson

FIVE BRITISH businessmen from small and medium-sized companies will next week spearhead a drive to improve exports to Italy. They are members of a "market investigation" mission, to be headed by Lord Jellicoe, chairman of the British Overseas Trade Board.

The board says excellent opportunities exist in Italy. At the moment, however, it is badly neglected with the balance of trade in Italy's favour, particularly in food and consumer goods. It notes: "The market is open, relatively close, wealthy, and part of the European community. At 4 per cent, the UK share is pitifully low."

Members of the British group work at the "sharp end" of exporting. They will be examining what the trade board calls the traditional, but often exaggerated, problems of doing business in Italy.

Several of the "opportunity areas" - consumer goods such as food, beer cars and do-it-yourself equipment, computers, electronic components and equipment, medical and scientific instruments, and security equipment - will be covered by Lord Jellicoe's team.

**John Lloyd describes the motivation of the men in dispute with the National Coal Board
Faith, pride and militancy of the striking miners**

BE THEY ever so humble (which they are not), Mr Ian MacGregor, chairman of the National Coal Board (NCB), and Mr Arthur Scargill, president of the National Union of Mineworkers (NUM), will find it hard to accommodate each other when they or their proxies get down to talking this week in an attempt to settle the 11-week-old pit strike.

Mr MacGregor must staunch his losses and please the Prime Minister. Mr Scargill must satisfy his supporters - which will be terribly hard to do.

All up and down the British coalfields are men whose job forces them to rely on each other. They have constructed networks of support and action during the dispute which have now gained a momentum of their own. They have returned instinctively to the trade union practices of a century ago in their organisation of self-help schemes and charitable ventures, and in their creation of at least a local climate of approval for their strike.

Take Mr John McCalpine, chairman of the strike committee at Oakley, a village in the Fife coalfield in Scotland where the miners make up 40 per cent of the working

male population and work in pits nearby like Bogside and Comrie. Mr McCalpine is small, stocky, in his forties, with grey thinning hair; he smokes hand-rolled cigarettes and drives an eight-year-old Volkswagen. He is full of energy and leads by example.

When men like Mr McCalpine organise jumble sales to raise funds, they out-jumble the acknowledged mistresses of the art among rural Conservative chairwomen or inner city dogooders. They grab it in by the sackload and shunt it round in vans from hall to hall until it all goes, and then they get some more.

When their members face financial problems, they make deals with the Fife County Council which defers rent on the council houses most of them live in.

When reporters from London papers talk to them, they say at the end of the interview: "I don't want to annoy you, but you had a good interview so what about a contribution to the miners' fund." Then they offer a receipt.

Mr McCalpine and his fellow strike committee members, like Mr John McDonald and Mr Willie Telford, have faith, pride and militancy: a formidable triptych of qualities. You can move governments with them or so they believe.

Faith. Mr McCalpine says: "Arthur Scargill has never told a lie in his life. Arthur Scargill is a miner, he thinks as a miner, he talks as a miner, he acts as a miner. I fear nothing from the talks which they'll have because I know they won't let us down. They are 100 per cent."

There is general agreement. Their president (70 per cent of the vote in the presidential election only two years ago) has committed himself fully to fight for their jobs. Mr Jim McCulloch, of the Nacods

TALKS will be held this week between the National Coal Board and the National Union of Mineworkers, but miners' leaders said yesterday that they did not expect a quick settlement to the dispute over pit closures.

Attempts by the union to stop production at the British Steel plant at Scunthorpe, Hamble-side, suffered a further setback yesterday when 6,000 tonnes of Polish coal arrived at the steel-works.

(overscers) branch of the union, speaks of Mr MacGregor: "It's not the man, it's the policies. The policies would have caused a strike sooner or later."

"His style hasn't helped," says Mr McDonald. "Up to this point in time we've had men come up through the ranks. What does he know?"

The faith is born not just from trust of Mr Scargill and mistrust of Mr MacGregor but from a belief that only a strong position, a strong stand, can save them. "Scotland is a marginal field," MacGregor says. "And he wants to close down all marginal fields. They've shut five or six pits in Scotland in the past three years, and we should have stopped that. But now we're stopping here."

Pride. What other group of workers know so much about itself? Miners refer you to books, like Webster's History of the Fife Coalfields,

and Behind the Diamond Panes, which tells some of the story of the Fife miners and how until the 19th century they were in effect serfs. The men were given collars and the women bracelets to mark them as the coal owners' property. They could be, and were, humiliated and returned if they deserted their pits.

The Fife coalfields in the early and mid 20th century produced a remarkable efflorescence of left-wing political culture. Communism was dominant - West Fife supported a Communist MP in Willie Gallagher for 15 years - but there was Trotskyism, anarchism and every known branch of left-wing socialism.

Oakley, says Mr McCalpine, had the highest ironworks in western Europe in the 19th century, fed by Oakley miners working a mine which drifted into the outcrops of coal all around the village. "There's coal all about," says Mr McCulloch. "We know where it is, it's been worked here for centuries, the monks used to work it. There's still plenty."

Militancy. Across from the hall where the strike committee has its headquarters, a police car sits much of the time. When miners get into their rented minibus and drive west out of the village, they say that a police car stops them before they have moved a mile.

"There's quiet lads in this village now hate the police and are thinking of joining revolutionary groups," says Mr McCulloch. Mr

McCalpine adds: "For every one man that got arrested there's 15 in his family or who know him that are now against the police."

Those miners who work at Bogside have, theoretically, no pit to go back to. The coal board has said that it will remain closed because it was partially flooded during the overtime ban before the strike. Mr McCalpine insists that its reopening will be part of the negotiations to return to work. On the national level, he insists that the withdrawal of the NCB's closure programme and its replacement with an expansion programme is a prerequisite to a settlement.

They are certain of their own militancy. They are, after all, supported by local MPs like Mr Dick Douglas and Dr Gordon Brown, they are given money and supplies by local workforces like the Rosyth dockers. The Scottish press, traditionally more centrist than the London newspapers, has been less partisan against them. They are fighting, not for money, but for jobs - jobs for themselves and their sons.

Mr McCalpine thinks that is why the women of the village have become as involved as they have. "In 1972 and 1974 it was about money. Now it's about the whole community - if we fail, it goes - the women understand that."

Faith, pride and militancy. The greatest of these among men like the Oakley strike committee is faith in themselves and their leaders, especially their president.

Exchange deals to be confirmed electronically

BY ALAN CANE

ELECTRONIC messages between London foreign exchange and currency deposit brokers and the banks confirming deals worth up to \$60m on an average day will soon replace the present manual methods.

Early next year, Britain's Foreign Exchange and Currency Deposit Brokers' Association will launch its automated confirmation service (ACS) with the co-operation of more than 130 London banks, including virtually all major British, European and U.S. banks, and with the blessing of the Bank of England, the central bank.

It will use several technologies pioneered or developed in the UK. ACS is the result of three years' work by the association to find a replacement for hand-delivered confirmations which, the association says, are "a cause of concern to both bankers and brokers."

They are potentially inaccurate, slow and expose banks and brokers to unnecessary risks.

Confirmation by telex has also proven unsatisfactory. "Neither telex deal-checks nor hand-delivered confirmations allow banks to eliminate the time-consuming process of manual checks by introducing automated reconciliation," the association argues.

ACS is similar to Swift, the banks' world-wide messaging system, and uses codes and message formats in the Swift style. It utilises four very recent electronics techniques:

- Packet Switchstream, British Telecom's new data network which allows fast and cheap transmission of

both large and small volumes of computer data.

- Netmux, an as yet unannounced British Telecom product which allows a number of banks to have access to Packet Switchstream through a special unit in a local telephone exchange for only £750 a year each compared with the usual £1,100.

- Beeline message switch, devised by Computer and Systems Engineering of Watford, which stores the confirmation messages prepared by a broker through the day and despatches them over the Switchstream network to their destination at the most appropriate time

- BT's "Gold" electronic mail service.

ACS was designed by Hoskyns, the UK-based computer services company which is now part of the U.S. Martin Marietta group, at a cost of nearly £200,000.

According to Mr Michael Knowles of broker M.W. Marshall, chairman of FECDBA, brokers might confirm up to 50,000 deals with the banks on an average day. Using ACS, confirmatory messages will either be printed out on the banks' own printers, fed directly into their data processing systems or stored in their Gold "mailbox", from where it can be retrieved using a desk top computer.

Case, a fast growing UK data communications company, last week completed its purchase of Riskon of the U.S. for £2.7m. The wholly-owned subsidiary will be called Case-Rixon.

Minet claims former staff misused funds

BY JOHN MOORE, CITY CORRESPONDENT

FUNDS belonging to more than 1,100 members of the Lloyd's insurance market, it has been alleged, were secretly used to finance the purchase and maintenance of yachts, an executive jet, two racehorses syndicates in Kentucky and a variety of other investments by former executives of Minet Holdings.

The allegations are contained in civil proceedings which were started at the end of 1982 by Minet Holdings agency in an effort to recover £38.9m of funds, which Minet had alleged had been misappropriated by the former executives.

Minet has uncovered a complex series of arrangements whereby money was channelled out of insurance syndicates managed by a group underwriting agency company, PCW Underwriting Agencies, to more than 150 companies or trusts in at least seven different countries.

PCW has alleged that the money was channelled out of the syndicates in the form of "reinsurance" which allowed former directors of the PCW underwriting agency and an associate company, WMD, to "receive improper personal benefit."

In its allegations PCW has said that Mr Peter Dixon and Mr Peter Cameron-Webb, both former PCW executives, owned a Hawker Siddeley HS 125 executive jet, registration number G-Ayer, through a Gibraltar company. The jet was operated through another Gibraltar company and the total running expenses paid out on the jet totalled £244,413. Charter fees totalled £156,214. The operating company was funded by money from the "reinsurance" premiums paid out by the syndicates.

The PCW underwriting agency has alleged that:

- An investment of \$100,000 was made in International Reporting Systems (Iris Washington), the Washington-based private intelligence organisation. The payment

was made with a view to consultancy fees being received by Mr Cameron-Webb as a result of work done for Iris. Mr Cameron-Webb was to be the underwriter of the political risk insurance scheme set up by Iris, which failed in 1983.

- Investments totalling \$204,000 were made by another former executive at PCW in two racehorse syndicates in Kentucky six horses were included in the syndicates;
- Mr Dixon used £358,000 PCW alleges, to buy the yacht "Aile Blanche." Total operating costs of £270,387 were funded by Gibraltar companies receiving reinsurance premiums from the syndicates;
- Another Gibraltar company maintained two other yachts - the Nerine 1 and N2, which were used by Mr Cameron-Webb. The total net operating costs of the Nerine 1 and N2 were £235,760;
- The sum of £1,145 was paid out of a Gibraltar company on behalf of Mr Cameron-Webb in July 1981. This, PCW alleges, related to expenditure incurred by Mr Cameron-Webb on a dinner party given in America.

Numerous loans have also been advanced and repaid to a variety of interests, including a small engineering company. Some £404,000 of funds, it is alleged, were also used to help former executives buy a 40 per cent stake in an associate underwriting agency, WMD.

Over the weekend, Minet and the Richard Beckett Underwriting Agency, the renamed PCW agency company, told underwriting members that they stood to lose \$7.5m in the course of their trading at Lloyd's. But they were told that an offer will be made to them which will lead to the payment of £3.9m, which has been allegedly misappropriated. This amount could be used to meet the underwriting losses.

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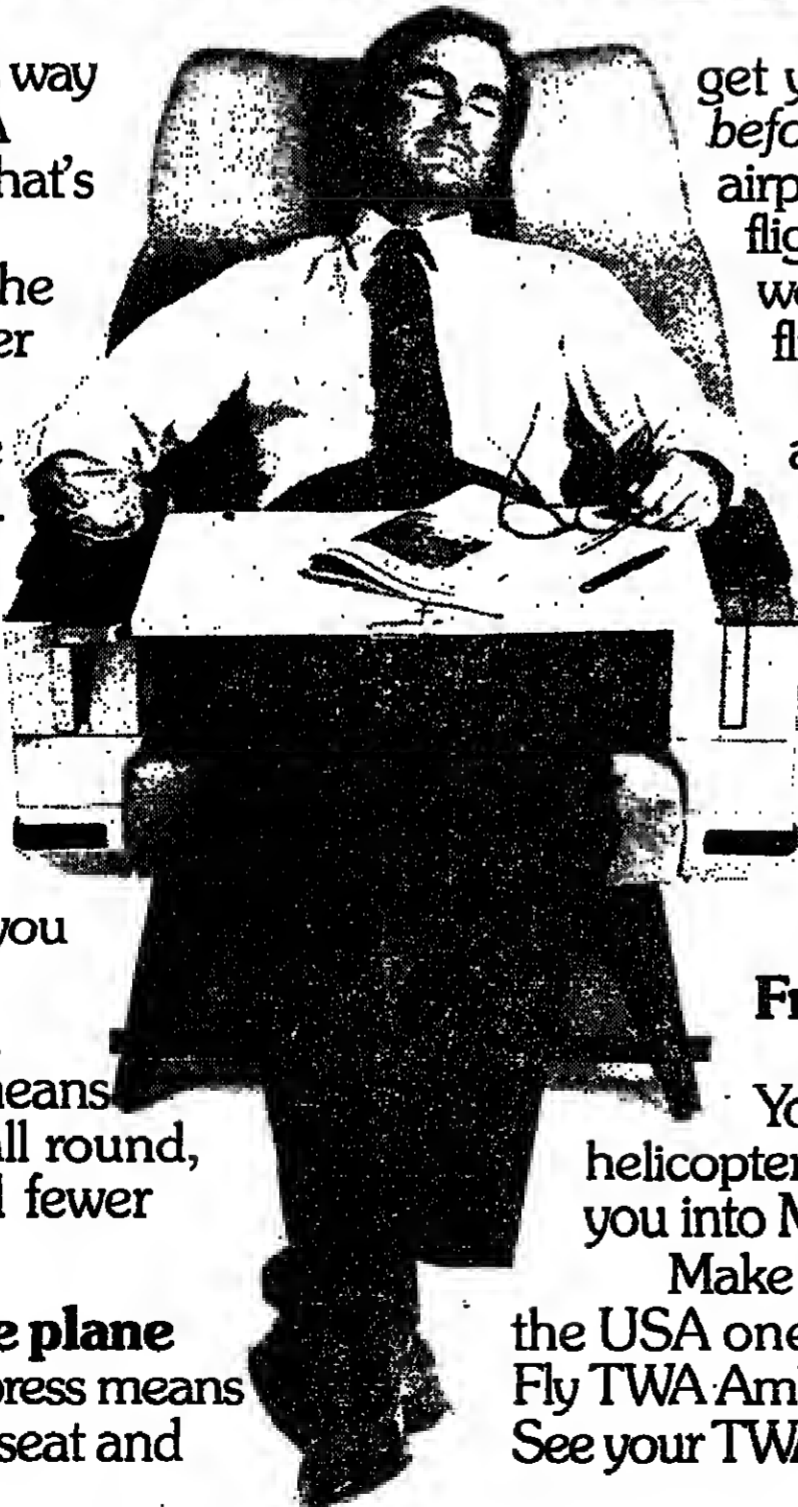
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According to a recent report in a financial newspaper, companies go to the wall for all manner of reasons.

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Those popular whipping boys, the Government and the unions, don't even get a mention. Nor should we automatically point the finger at the EEC or the microchip.

For the most part, the bald truth is that when companies get into trouble they have only themselves to blame.

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UK NEWS

Call for new N-plants to be UK-designed

BY DAVID FISHLICK, SCIENCE EDITOR

BRITAIN'S next nuclear power station should use the UK-designed advanced gas-cooled reactor (AGR) regardless of the outcome of the Sizewell public inquiry, one of the country's electricity chiefs will tell the inquiry next month.

Mr Donald Miller, chairman of the South of Scotland Electricity Board, believes that conservation of the AGR technology should be the overriding national priority.

He claims that a new AGR could provide cheaper electricity than the "British" pressurised water reactor (PWR) planned by the Central Electricity Generating Board for Sizewell on the east coast of England.

In a statement on AGR merits requested by Sir Frank Layfield, the Sizewell inspector, Mr Miller and Dr Tony Pexton, the SSEB's director of engineering, say that Britain's first four AGRs are now per-

forming well. Their performance during the last two years puts them among the best reactors internationally.

About 35 per cent of SSEB electricity last year came from nuclear reactors, mostly from its two AGRs. SSEB estimates based on experience with its Hunterston B station and four years of construction of its Torness station suggest that AGRs can be built to a programme "at least as short as any other type of reactor."

Power from a new AGR station could be marginally cheaper than the estimates for the Sizewell B PWR put by the CEBG to the public inquiry, according to the SSEB.

SSEB directors say their estimates are fully supported by CEBG experience with its operating AGRs at Hinkley and with its new AGRs under construction at Heysham.

Dr Ned Franklin, former managing director of the National Nuclear Corporation which builds Britain's reactors, told the British Nuclear Energy Society this month that if a PWR was built at Sizewell the chances of building another AGR station would have weakened "very substantially as skilled teams and manufacturing facilities are dispersed."

Dr Franklin warned that, because

of the very small number of new reactors likely to be ordered in Britain for the next decade, a choice must be made "between having a PWR and allowing the AGR option to wither, or not having a PWR."

The SSEB sees the dramatic decline in UK electricity growth as the "absolutely crucial factor" in favour of the AGR. The road which led to the Sizewell inquiry into a British PWR began with a statement by a former CEBG chairman in 1973 that, so great were the problems of building AGRs, the AGR programme was "a disaster which must not be repeated."

The SSEB believes that Sir Frank Layfield is now seeking a second opinion on AGR performance to the one submitted by the CEBG at the start of his inquiry in January, 1983.

The main new factor in AGR per-

formance supporting the SSEB arguments has been experience at Hunterston and Hinkley with on-load refuelling in the past two years, Mr Miller says.

Although this practice was the crucial factor in giving the AGR the edge over its U.S. rivals on paper in the national assessment in 1983, it was forbidden for safety reasons until 1982. Using modifications approved by the nuclear inspectors, the AGRs are now being refuelled at about 30 per cent of power output and are confidently expected to go to much higher power levels.

On-load refuelling increases the output, but its biggest advantage is the extended life of the reactor.

Two advances in AGR fuel, one being introduced now and the other to go into production for the late 1980s, are expected to cut fuel costs by 3 per cent in each case.

Lear Fan plants threatened with shutdown

BY OUR BELFAST CORRESPONDENT

SPECULATION is growing that Lear Fan, the UK Government-backed aircraft company, will this week announce the temporary closure of its Northern Ireland factories because of serious delays in the project.

The 380 workers in two plants near Belfast are already on a two-day week because of delays caused by the discovery of structural faults during tests on the carbon fibre aircraft in the U.S.

Two weeks ago, the company announced a new schedule which means that a vital airworthiness certificate for the aircraft will not be secured until February 15 next year.

Senior management at Reno, Ne-

TVR sets up new U.S. sales network

By John Griffiths

TVR, the sports car maker based at Blackpool in north-west England, has set up new distribution arrangements in the U.S., where it expects to sell 300 cars - 60 per cent of production - this year.

The U.S. importing organisation, TVR of America, is based in Jacksonville, Florida. Mr David Bensley, former president of Volvo in North America, is chief executive.

The new distribution contract was signed in January after TVR's decision to terminate arrangements with Mr Peter Birumshaw, a Canadian-based importer, last year.

TVR re-entered the U.S. market last June, having been excluded since the late 1970s by legislative requirements until its latest car, the Tazmin, was developed. However, the import arrangements lasted only four months before TVR terminated the contract. Only 60 cars had been sold.

About 120 cars have already been sold through the new distributors, who have so far set up 10 out of 20 planned U.S. dealerships, all on the East Coast.

The remainder of this year's planned output of 500 cars will be sold mainly in the UK.

Output at the Blackpool plant, which employs 100, is the highest achieved by the company.

Move to stop £3bn Co-op merger fails

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

AN ATTEMPT to kill off the proposed £3bn merger of the two largest co-operative groups in Britain was defeated yesterday after an extended secret session of the Co-operative Congress meeting in Blackpool.

Delegates to the congress, the Co-op movement's annual parliament, were critical of the failure to bring about the crucial merger of the Co-operative Wholesale Society (CWS) and the Co-operative Retail Services (CRS), the largest retail Co-op.

The merger was aimed at making the Co-op retail movement a more effective force in the face of tough competition from chains such as Tesco, J. Sainsbury, and Marks & Spencer.

Proposals to merge the CWS, which has a turnover of more than £2bn a year, with the £1bn a year sales of the CRS, were first announced at the congress two years ago.

Yesterday's debate was held in secret session, so that delegates could speak freely about the growing frustration of the 130 retail societies' attempts to restore their flagging fortunes in the fiercely competitive retail world. The reso-

Record German exports to UK of quality wine

By Lisa Wood

ONE THIRD of West German wine exports are now to the UK, according to the German Wine Institute.

The institute said that exports to Britain last year of quality German wines, as distinct from wines used in EEC blends, were a record 55.1m litres, compared with 48.4m litres in 1982.

"British wine drinkers are consuming lighter and whiter wines," said a spokeswoman for the institute.

Britons drink four times as much wine as they did 10 years ago and consumption rose more than 12 per cent last year. An estimated 69 per cent of that wine is white, compared with 60 per cent in 1980.

Industry apathetic towards 'mission to communicate'

BY JOHN LLOYD, INDUSTRIAL EDITOR

AN AMBITIOUS attempt to promote better employee communications and involvement in company affairs across most industrial sectors has run up against apathy, delay, indifference and downright hostility - and those responses come from the sectors "reporting progress."

The initiative was launched in 1981 by the National Economic Development Council (NEDC). It followed a council discussion on how communications within companies could be improved and on how the results of the work of the various economic development councils and sector working groups could be made more widely known below senior management and union official level.

Mr John Cassels, the NEDC's director general, in a paper summarising the results for the June meeting of the council, signals that its work in this area has reached its effective limit unless the main representative bodies of industry's two sides - the Confederation of British Industry and the Trades Union Congress - recognise that "the responsibility for advancing this work rests fundamentally" with them.

The NEDC tripartite steering group set up to co-ordinate the initiative works through management and union contacts in companies and is highly dependent on established structures and on personal co-operation.

Where the group believes that communication can be furthered by

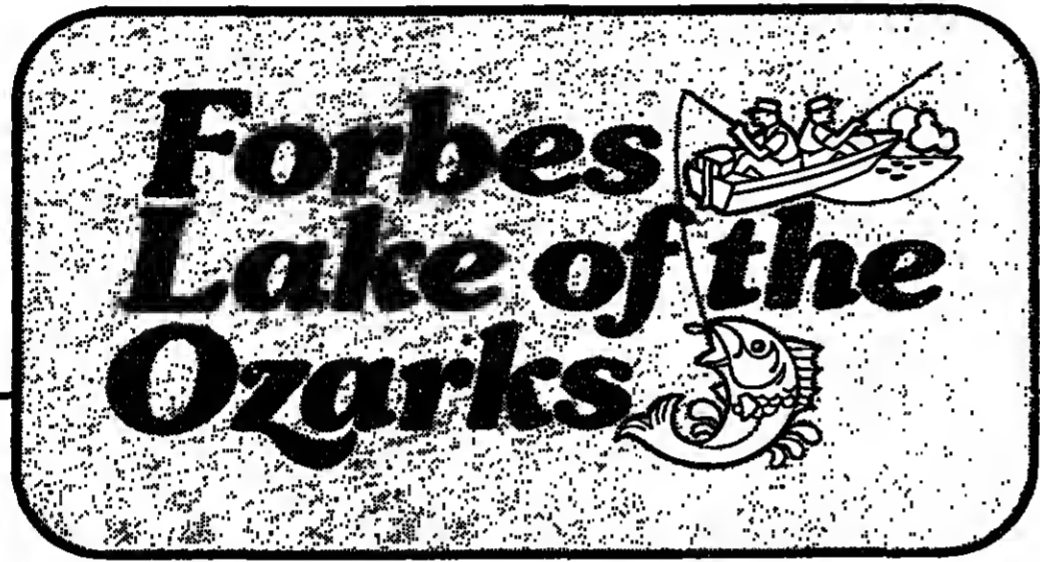
active intervention, it appoints an "ambassador" to liaise with management and union representatives to encourage them to set up formal machinery for joint discussions on the company and the industry.

The costs of this programme, while still modest, have risen sharply from £39,000 in 1981-82, when five ambassadors covered five industrial sectors, to £144,000 in 1983-84 when 19 ambassadors covered 13 sectors.

The industry by industry analysis from the development councils charts a very mixed reception, at best, to the NEDC's mission to communicate. The picture, with the exception of the clothing, cotton and textiles and footwear industry - where the ambassador concept was pioneered - is one of considerable reluctance to respond to a project obviously seen by many as interfering and time-wasting.

In the successful sectors a good deal of work in formalising communications and in adopting suggestions has been done. In cotton and allied textiles - where an ambassador was appointed as early as 1979 and "factory development councils" established in 30 plants in the same year - savings have been identified where agreed ideas have been introduced, work conditions have been improved and changes made in work patterns.

This appears to be exceptional. More often, attempts to encourage communications met hostility from both sides - as in the sectors for die-



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UK NEWS

Anthony Moreton examines a Scottish manufacturer's move into U.S. production

Dawson buys growth, not glamour

AT FIRST sight the decision by Dawson International to buy J. E. Morgan Knitting Mills, the leading American manufacturer of thermal underwear, for £30m seems a quixotic move.

Dawson is a conservatively run Scottish manufacturer of some of the finest knitwear in the world, with names such as Pringle, Gladstone, Barrie, Ballantyne, Braemar and McGeorge in its stable.

Morgan Knitting Mills is far removed from the conservative glamour of Pringle and Barrie. It is a one-man band headed by 73 year old Mr John Morgan, and is concerned with thermal underwear, a small range of baby wear and leisure wear. The company was founded in 1946 by Mr Morgan and employs about 1,000 people in a number of factories around Hometown, Pennsylvania.

It is, however, a very strongly based company, with a third of the U.S. market for its products. Its customers include many of the triple A-rated names, led by the U.S. Government and including K-Mart,

Sears Roebuck, J. C. Penney and Woolworth. These generated strong cash flow last year, with pretax profits of \$9.4m on turnover of \$43.4m.

Mr Ronald Miller, chairman of Dawson, says Morgan fits in nicely with the Scottish manufacturer's aims. "It does not provide us with a glamorous product, but the company has a good history of providing rising sales and profits and has a superb one flow plant at Hometown."

"Although the company depends heavily on thermal underwear at the moment, from which it derives 85 per cent of its turnover it also has the capacity to get into the highly profitable and rapidly expanding leisure wear market, where there is real growth."

Since taking over as chairman in 1983 Mr Miller has put a new emphasis on the company's strategy. While staying in textiles, he wants to see the Kinross-based concern develop organically, strengthening its base by selective acquisitions in the major world economies, giving

Dawson production bases in countries with sound, growth-based economies.

The first step along this path was taken last year with the acquisition of KSW of Wilhelmshaven for £7m. Although relatively small, KSW has a strong brand name in its portfolio - Hubner Wolle - and is one of the largest spinners of hand-knitting yarn in West Germany.

America was a logical progression, and Dawson decided to "crawl" through the U.S., looking at more than 300 companies, Morgan Knitting came to its attention in a roundabout way when a New York broker mentioned the company's name to Dawson.

As part of the process of establishing a foothold in the U.S. Dawson had already recruited a top executive, Mr Philip Kemp, who will become chief executive of Morgan Knitting.

The Morgan deal is important because Mr Miller likes the look of America. "This gives us a bridgehead into the States. We want to look at the market much more

closely and see where we might go from here. Morgan is a speciality company and so are we, so that is the way we shall go."

Those who want to see Dawson indulge in more takeovers in the U.S. will be disappointed if they expect quick actions. Exercising his native caution, Mr Miller says: "We are now on a learning curve in America. We shall thoroughly digest what we have before deciding to branch out further."

Mr Morgan welcomed the approach from the Scottish group - he had no obvious heir to whom to hand over and was keen to divest himself of active management. As a production man he had built a very sound manufacturing unit but his marketing skills were far less in evidence.

His products lack Pringle's design flair and their general presentation was insipid, unusual in America where marketing is so advanced.

Potential for expanding the market in the U.S. is obvious. Pringle has ample reserves to underwrite

such a move since it is cash-rich and has financed the whole of the acquisition on a share exchange and borrowing basis.

But perhaps the real potential in Morgan Knitting lies in its ability to easily enter the leisure-wear market. This is the area of greatest growth in sales of clothes - anoraks, blouses, jackets and separates.

Morgan has installed the most modern machinery, and now has 300 circular knitting machines and a policy, according to Mr Morgan, of "ultimately replacing all its older equipment with more efficient and productive machinery."

Moving into leisure-wear would reduce its dependence on a narrow sales season for thermal underwear, followed by stockpiling the rest of the year.

"We want to be bigger in the U.S.," Mr Miller says, "and the best way to do this is to have a strong base there. Morgan has given us that base and we are very pleased with this move."

lined in last year's report, it launched a major capital increase in November and raised BF 5.5 billion through a new share issue.

This capital increase has brought about an improvement in the financial structure of the Company. The ratio of own funds to fixed assets and investment holdings rose from 69% to 82% notwithstanding an increase of 8% in investment holdings.

After an analysis of the economic background and of the conjunctural evolution in the industrialised countries in 1983, the Annual Report proceeds to a review of the various companies comprising the Group, among which the Nouvelle Union Minière which continued the implementation of its internal restructuring programme which it had embarked on in 1982.

The principal activities launched by the other companies of the Group (Sofina, Tanks, Ganstar, Société Générale de Banque, Fractinel, Electrobel, Sibeca, BN, FN, Carbochim, FRB, CBR, CFE, Arbed, Sidmar, CMB) are detailed in this Report.

This report is now available from Société Générale de Belgique, Information Department, rue Royale 30, B-1000 Brussels (Belgium), tel: 2/517-1676, as well as from Banque Belge Limited, 4 Bishopsgate, London EC2N 4AD, tel: 01-253 1080.

Financial Year 1983 SOCIETE GENERALE DE BELGIQUE

—MAINTENANCE OF NET DIVIDEND OF BF 90 PER SHARE
—TRANSFER TO RESERVES OF BF 163 MILLION
—CAPITAL AND RESERVES AS AT DECEMBER 31 1983: BF 24,787 MILLION

The General Meeting of Shareholders held on 2nd May 1984 approved the Accounts for the year ended 31st December 1983. A net dividend of BF 90 on each of the 10,878,813 shares existing before the capital increase of November 1983 became payable on May 8 1984.

In the Annual Report, the Directors draw the attention to the intense activity, in 1983, in the financial markets in Belgium, particularly in the realm of rights issues. The Société Générale played a leading role in this development; in accordance with the plan out-

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Channel 4 to invest in co-productions

BY RAYMOND SNOODY

CHANNEL 4, Britain's newest independent television network, has launched a series of co-financing programme deals with major European television companies. The company is investing up to 30 per cent of the production costs of programmes made in France or Italy in return for similar reciprocal investment in Channel 4 production.

Under the plan, which began earlier this year, Channel 4 is involved in three deals with RAI, the main Italian network, and two productions by Antenna 2, the leading French television channel.

The company envisages rolling three-year investment plans with

leading European television channels. The aim, according to Mr Justin Dukes, managing director, is to increase the diversity of quality international material available to the channel by helping to reduce costs.

He said the method would help to avoid bland "mid-Atlantic" co-productions, and hopes to establish similar arrangements with other European television companies.

In the latest ratings surveys, Channel 4 took nearly 7 per cent of the UK audience. It is also looking at the prospects for selling its programmes for cable and satellite television.

Residual oil converted to gas in experiment

BY DAVID FISHLOCK, SCIENCE EDITOR

MORE THAN 100 TONNES of residual oil - the "bottom of the barrel" - has been converted to natural gas successfully in a £2m Anglo-Japanese demonstration of a new British technique for making substitute natural gas, British Gas says.

The demonstration, with experimental equipment in Britain and Japan, has been co-funded by Osaka Gas Company and the EEC, which between them contributed £3m.

The almost solid oil residue from refineries has been gasified in a fluidised bed of coke particles at high temperature and pressure.

British Gas researchers at the Midland Research Station, Solihull, have built a chemical reactor 25 cm in diameter, which they feed with the atomised oil and hydrogen gas. The bubbling bed of red-hot coke

continuously converts the oil to a hydrogen-rich gas which is readily upgraded to the quality of natural gas.

A parallel demonstration near Solihull gives the collaborating companies confidence that the fluidised bed hydrogenator will scale up to commercial sizes.

This is a model reactor, 22m tall and 1.5m in diameter, designed to demonstrate the behaviour of the process in deep fluidised beds without actually converting oil.

Continuous "dry runs" of several days on the model have convinced the two companies that the process could be operated successfully on commercial reactors as big as 3m in diameter.

Osaka Gas has also been running the process on a semi-commercial plant with a reactor 1m in diameter.

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THE MANAGEMENT PAGE: Small Business

The small retailer

A hazardous occupation

WHEN John White took over the village shop in Wornelov, Herefordshire, he was told by a personable young salesman that no village store should be without a stock of bootlaces.

"I bought £100 worth," says White, "received a radio alarm clock as a reward from a grateful salesman and waited for trade to pour in."

"At the end of a year the clock no longer worked and I had sold just £10 of bootlaces, leaving another nine years to get the rest of my money back."

White, like many others going into business on their own account, had to learn quickly from his mistakes. The average survival time of a village shopkeeper going into business for the first time is around two years.

In the event John White spent four years of hard work and low returns running his store; but at least he survived. He is now retail officer for the Government-funded Council for Small Industries in Rural Areas advising other village shopkeepers how to remain solvent and avoid falling foul of persuasive bootlace salesman.

"The first thing we tell retiring doctors, lawyers and redundant steelworkers seeking a new life running a village shop is not to do it," says White. "Many will end up losing their money. Few will do little more than just scrape a living."

An average village shop might expect to turn over around £80,000 a year, according to White. "On this basis, and allowing for a profit margin of about 16 per cent gross profits might be around £8,000. "Out of this will have to come rent or mortgage repayments, transport costs, pay for relief staff, rates, heating, lighting, phone bills, plus other charges such as cost of theft or advertising. After all this, the shopkeeper will be lucky to achieve net profits of a couple of hundred pounds."

"Cost of local authority rates, electricity and other services are higher because they are connected to a business premises even though a large proportion of the charges may relate to living accommodation above or at the rear of the shop."

CSIRA estimates that during the next five years at least half of the 12,000 village shops in England will have been forced to close at one time or another—some will never re-open, say the council.



"Packet of tea, tin of baked beans and have you any of those silicon chips the kids like?"

The sharp fall in numbers of agricultural workers has had a dramatic impact on trade. Villages, particularly those in the south, within commuting distance of major cities and towns, have also seen substantial changes in population mix, as the wealthy and mobile have moved to homes in the country.

"The changing pattern of rural life means that village stores must adapt if they are to survive. The emphasis must be on quality and service," says White. "The delicatessen counter is a good way to compete with supermarkets. Products sold here often command better margins than staples which supermarkets, with their bulk-buying capacity, can sell more cheaply."

White, however, advises shopkeepers to research local markets carefully unless they want to end up with products that do little more than keep shelves warm.

Bill Booth, general secretary of the Nottingham-based National Association of Shopkeepers, says: "The problem is that we are asking people to behave like sophisticated retailers when many of them have no previous business experience."

"Maintaining a good cash flow is vital. The classic error is to keep raiding the till until there is nothing left with which to buy stock."

Tales of disaster are legion. One shopkeeper was so overcome by his first week's takings of £1,000 that he blue the lot installing central heating, forgetting that he had to replace

the stock sold. He never recovered.

The idyllic dream of owning a business can start heading towards disaster even before trading starts. "Too many people underestimate the cost of running a small shop," says John Sutton, a former bank manager who is now a business consultant with wide experience of running small shops and finance director of a timber treatment company in Market Harborough, Leicestershire. He is also a member of the national executive of the National Association of Shopkeepers.

"Too many businesses start off under-capitalised. It can take several years of hard work before a shop will do much more than break even. Without sufficient capital behind it a store can quickly fail," says Sutton.

"The cost of buying a business can be expensive. Loans, usually from a bank or finance house, are generally for no more than 10 years and can command interest rates up to 34 per cent or more above bank base rates.

"A typical loan might also cover only 50 or 60 per cent of purchase price, excluding stock," says Sutton.

John White argues that there is much the shopkeepers can do to help himself. Strict financial controls and diligent book-keeping are essential, he says. Shopkeepers can also band together to improve their purchasing power from suppliers.

"But even if they do all of these things some will still find it very difficult to make ends meet, he says. "Another source of income, possibly by acting as a sub-post office, may be essential."

"One village shopkeeper I know started by selling second-hand business cures from local farms which he then sold to other village shopkeepers. If he had not had this second string to his bow he might not have survived."

"The finances of village shopkeeping are such that many of those now starting out will not survive."

"To avoid failure will require a lot of hard work, enterprise, skill and most of all the goodwill of customers who, if they want to keep a shop in their village, must remember to patronise it at times other than when they run out of frozen peas or a bottle of milk."

Andrew Taylor

Rising cost of a guarantee

THE GOVERNMENT'S Loan Guarantee Scheme was given a "stay of execution" last week—but small business borrowers under the new revised scheme, which runs from June 1 to December 31, will have to fund higher interest payments and may find the banks more reluctant to lend than before.

There was considerable relief among bankers and lobbyists that the three-year-old experiment is not to be abandoned completely when the present pilot scheme runs out on Thursday, as well as some satisfaction from the more bitter faction among backbench Tory MPs, who had run a local campaign to prevent Ministers axing the scheme. Reactions to the changes, however, ranged from mild complaints that the measure had been "watered down" to the more bitter observation that it has now been "emasculated."

David Trippier, the Small Firms Minister, explained that the changes were needed "to reduce public expenditure cost" (last put at a cumulative £40m) and to ensure that the potential beneficiaries of the scheme are more closely defined. In the future, therefore, the Government will only guarantee 70 per cent of loans made by participating banks and institutions (up to a maximum of £75,000), compared with 80 per cent previously. And the premium levied by the Department of

Trade and Industry to cover losses will go up from 3 per cent per annum to 5 per cent on the reducing balance of the amount guaranteed (thereby placing a cost of 34 per cent on the loans in addition to the interest charged by the lender, against 2.4 per cent previously).

What does this mean for a typical small business borrowing £75,000 and repaying the proceeds over seven years (or 28 quarterly instalments). Unfortunately the changes had not been fed into the DTI computer model but a DTI official obligingly did some quick sums to illustrate the effects.

Under the present arrangements (ie, if a guarantee is approved before May 31) the first quarterly premium payment will be £1,000 and the Government's £450, the second £434 and so on as the balance declines making a total of £8,526 over the term. After June 1, the first quarterly premium instalment will be £1,200, the second will be £633 and so on, making a total over the seven year period of about £9,500.

This, of course, comes on top of the interest payments and capital repayments made to the bank. As things stand these are not affected. But it seems likely that, in view of increased proportion of the loan on which they are carrying the risk (30 per cent instead of 20 per cent), the banks will consider increasing their own charges.

National Westminster at the moment is cheapest among the four major high street banks, charging 14 1/2 percentage points over base; Lloyds charges 2 per cent over base, and Midland and Barclays 2 1/2 per cent (the Co-op, however, is the best value at 1 1/2 per cent over base).

Nobody at this stage is sure what the impact of the changes will be. A spokesman for the Committee of London Clearing Banks (CLCB) said lenders would continue to approve applications "only if they considered the business viable," but in the short term at least there is bound to be a fall-off in numbers as the banks weigh up their position and implement suggestions from the Government on tightening up their appraisal. Trippier himself estimates that monthly approvals could fall from the current average of 400 a month to perhaps 300 under the new scheme, while potential borrowers put off by the high cost could well opt for one of the banks' own lending schemes in return for pledging some personal security. (This specifically is not required under the LGS.)

Longer term it is still anybody's guess what will happen to the LGS—a final decision should be taken before the end of this year.

Tim Dickson

In brief...

BUSINESS in the Community (BIC) and the Confederation of British Industry Special Programmes Unit (SPU)—two organisations which have been discussing marriage for the past year or so—daily announced their engagement last week. Both have encouraged British companies to give financial and practical help to the communities in which they operate (much of it involving small business support) but in view of the potential overlap and apparent confusion in some quarters it was thought best to join forces.

The new unit, which will be formally launched in October, will retain the name *Business in the Community* and will have its headquarters at the BIC offices (227A City Road, London EC1; Tel: 01-252 5716). Stephen O'Brien, former chairman of moneybrokers Charles Fulton and chief executive of BIC, will be chief executive of the enlarged entity, while Lord Carr, at present chairman of the SPU, will be the first chairman.

LLOYDS BANK has created a Small Business Unit. It will be headed by Don Good, formerly assistant chief manager of Lloyds Leasing.

The unit, which will include franchising, will spearhead the bank's promotional and service activities and technical expertise in the small business field and will have special responsibility for the Loan Guarantee Scheme and Lloyds' new Technology Appraisal Scheme.

Good succeeds John Kirkwood, Lloyds' previous small and medium business finance adviser and one of the most tireless and enthusiastic campaigners for a better understanding by all banks of the small businessman's requirements.

The Small Business Unit will be located within Lloyds' Business Advisory Service—a team of specialist managers trained in various aspects of financial management who visit small firms to provide an in-depth assessment of a company's past performance, present situation and future plans.

THE Government's Statutory Sick Pay Scheme, which makes employers responsible for the first eight weeks of sick pay on behalf of the state and involves keeping detailed administrative records, is proving a head-

ache for the small business, says the National Federation of Self-employed and Small Businesses.

Citing figures given in a recent Commons written answer, Dr Bernard Juby, the federation's national chairman, points out that "nearly one in four businesses employing fewer than six people has either underpaid or overpaid in recent months. In percentage terms cases checked and found either underpaying or overpaying have risen from 24 per cent last June to a high of 28 per cent this March."

Juby added that the Government's own research suggests larger firms are also "confused" by the scheme, which has now been running for over a year. He made it clear that the federation will continue to campaign "that smaller employers should be exempt from this scheme."

IS IT worthwhile investing in an expensive numerically-controlled machine tool which will involve considerable changes in the organisation? According to Professor John Sizer and Jim Finkle of Loughborough University, decisions are often ill founded and the indirect benefits of introducing NC machines as working capital requirements and other outlays tend to be ignored.

The two academics have thus developed a DfV manual entitled *Small business: evaluating the installation of NC machine tools*, which they claim will be useful both to production directors or managers "and the financial managers of smaller manufacturing businesses which do not have well developed systems for appraising capital expenditure on new equipment."

It is published by the Institute of Cost and Management Accountants (ICMA) in association with the Machine Tool Industries Research Association and is available, price £12.50, from ICMA's Publications Manager, 85 Portland Place, London W1N 4AB.

LAST Tuesday's article on the new approved share option scheme appeared the same day as Parliament was discussing the relevant provisions of the Finance Bill in Standing Committee. John Wilson, the Finance Secretary to the Treasury, announced that an amendment would be introduced at the Report stage permitting options to be exercised after three years, instead of five.

T.D.

Growth in popularity of franchising

FRANCHISED businesses in Britain should be viewed primarily as small firms, rather than managed outlets of larger companies.

This is one of the main conclusions of a new study by Professor James Stanworth of the Polytechnic of Central London which describes the UK and relationships in several major companies between franchisor and franchisee.

A franchise relationship can take various forms. Typically, however, it involves an independent businessman (the franchisee) operating under the trade name and business format of a larger organisation (the franchisor) in exchange for a continuing royalty.

Franchising is frequently seen as a recent phenomenon imported from the United States, though as Stanworth points out, 18th century brewers in Britain were

almost certainly the real pioneers with their system of "tied" house agreement.

Certainly franchising is much more important economically in the U.S.—accounting for more than 90 per cent of retail sales and 10 per cent of gross national product—but it is gaining ground in Britain.

A survey by the British Franchise Association in 1982 showed that some 4,300 separate businesses had been created by the then 40 BFA members and that their then sales of £400m were expected to reach £500m by the summer of 1983.

Discussing the changes in the industry in the last few years, Stanworth points out that the clearing banks have established a strong foothold and, importantly, "have defined franchising as legitimate small businesses."

The survey detected a marked increase in the num-

ber of franchise opportunities that potential franchisees consider, but it also identified "sources of potential conflict that could, on occasions, lead to the setting-up of independent franchise associations and even legal disputes between franchisor and franchisee."

"Against that, the generally smooth day-to-day nature of franchise relationships emerged as far more typical."

"The generally high level of educational qualifications obtained by franchisees and the frequent reliance for their attainment on part-time study came through strongly."

* A study of power relationships and their consequences in franchise organisations. A report to the Economic and Social Research Council, ESRC Project No. HR 7310.

T. D.

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THE ARTS

Cinematic refuge from the rain

Rain concentrates the mind wonderfully at Cannes, drawing all eyes to the beach, dear friends...

Films of vast length — 2 1/2 hours of Wim Wenders' Paris, Texas, 3 1/2 hours of Sergio Leone's Once Upon a Time in America...

Wenders, always the least showy of the New German Cinema filmmakers, now looks to be the one with the most staying power...



Harry Dean Stanton in "Paris, Texas"

sometimes inspired to India's vast, Meszaros shuffles "Julie," a sullenly rebellious teenage orphan...

Michael Lyndon (Skolimowski's son, who also co-wrote) is the human pawns in this game of crazy chess about a Polish film producer...

Nigel Andrews completes his report from a damp Cannes

had ended with Stalin's death. Ray's film adapts a triangular love story by Tagore, set during the British partition of Bengal...

a heap. But Skolimowski, being a film-maker who denies any knowledge of the laws of gravity, can re-erect it as quickly as it falls down...

It was refreshing, none the less, to have Jerry Skolimowski's Success Is The Best Revenge jumping into Cannes at the festival's mid-point...

Elsewhere, the Cannes Competition had as many ups and downs as a San Francisco trolley ride. Ups included Lino Brocka's Boyon Ko...

Architecture Colin Amery

John Betjeman remembered

Walking along Piccadilly in the rain on my way to look at the Architectural Room at the Royal Academy's Summer Exhibition...

tempting parrots? Where else would you find in one room pictures of Morris Dancers, black clergymen, carefully observed railway engines...

catalogue and is rather ominously called Airport Reception Building. The joke is it could be almost anything from a factory to a funeral home...



capitalism. Whatever it is this generation will not see it. Architecture has lost one of its greatest friends.

Two Juliets/Covent Garden Clement Crisp

Is Kenneth MacMillan's Juliet a girl awakening to the discovery of love or of sexual awareness? It is a high-key, somewhat unrelenting interpretation...

extravaganza that speak of temperament ablaze but almost out of control. It is a high-key, somewhat unrelenting interpretation...

Donohoe and Janowski Max Loppert

This country doesn't very often produce virtuoso pianists like Peter Donohoe. The fact of his existence and of the current regularity of his London appearances, isn't yet celebrated...

forged, as the strength and freedom of their exchanges attested. The performances of the third Leonore Overture at the beginning and of Hindemith's Weber Variations at the end were rather more uneven...

Her Juliet, from a first boisterous appearance, is a girl of determined character whose access of mature feeling and sexual awareness is beautiful in the balcony scene...

Juliet was shown with a touching sincerity in terms of a girl's rapturous discovery of love. If sexual passion had its excitement, far more so did an effusion of feeling for Romeo...

The feat of playing the Fourth Concerto and the Paganini Rhapsody is, obviously, an athletic one (and at the close of the latter Mr Donohoe gave the impression of being ready to faintly dispense a third Rakhmaninov torrent...

The latest in the Wigmore Hall's enjoyable Sunday morning Coffee Concerts was given by Vladimir. In an all-Chopin hour and a selection of popular pieces completed by the Third Sonata...

Futurum Ensemble/Purcell Room Andrew Clements

The Futurum Ensemble hails from the State Academy of Music in Stockholm; roughly the size of our London, it is a mixture of young professional musicians and advanced students dedicated to contemporary music...

Neither of the domestic products was new but both merited a second hearing. Gary Carpenter's Da Capo is effectively put together, expertly scored but ultimately unmemorable...

be a lucid, well-proportioned piece for cello and ensemble which builds to a brief, fierce climax after many slithering quarter tones and much jockeying for expressive position...

of Gunnar de Frumerie's settings or Lagerkvist's Aftonland, through Karl Birger Blomdahl's Dance Suite no 2, written in 1951 and synthesising a heterogeneous set of European influences...

Obituary/Eric Morecambe

Eric Morecambe, who died yesterday aged 58, was the outstanding comedian of the post-war television era. With his partner Ernie Wise...

ing "have-you-ever-heard-any-thing-so-ridiculous" look before swivelling gracefully round on his prey, slapping him on the side of his head with open hands and clapping him lightly...

Both comedians were awarded the OBE in 1976. For millions of Britons, the Christmas festivities without a show from Morecambe and Wise will be not quite so festive...

Arts Guide

Arts Guide listing events across various cities: LONDON, CHICAGO, ITALY, BRUSSELS, VIENNA, ZURICH, NEW YORK, PARIS, WEST GERMANY, and MUNICH. Includes details for Opera and Ballet, Music, and Theatre.

Beethoven/Wigmore Hall Andrew Clements

The last of the series under the title "Late Beethoven—Both Ends of the Spectrum" presented in the Wigmore Hall by the London Society Chamber Music brought together the performers who have sustained all four of the programmes...

played the last four numbers of Op 107—on one Russian and three Scottish themes—doing what the couple with the limited opportunities Mr Roberts heard to better advantage in the bagatelles of Op. 128...

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Tuesday May 29 1984

Mitterrand's initiative

PRESIDENT Mitterrand's initiative in calling for a new impetus in the integration of Western Europe deserves warm support from every responsible government. For over a decade, the European Community has been devalued by national obstinacy in defence of vested interests, without in precise satisfying those interests. The time has come to make a new effort.

There are three main reasons for the Community's stagnation. The first was the legacy of General de Gaulle, who fatally undermined the original assumption that the member states were engaged in a common enterprise of equals. The second was the stagnating impact of the two oil shocks, which provoked nationalist reflexes in many member governments. The third has been the interminable quarrel over Britain's excess contributions to the Community budget.

With the passage of time, de Gaulle's legacy has waned: the French are less arrogant about their special position in the world. The nationalist reaction to the oil crises has given way to the realisation that Europe faces a common problem: the hi-tech industries of Japan and the U.S. and from Washington's management of the U.S. economy. With reasonable luck and goodwill, the British budget problem should be disposed of for good at the forthcoming European summit at Fontainebleau.

If so, the decks will have been cleared for the member states to give serious consideration to a relaunch of the Community process.

Endorsement

Some of the ingredients in President Mitterrand's speech to the European Parliament last week may seem more plausible than others. The idea of closer European security and defence co-operation, partly through a revival of the Western European Union treaty institutions, is already gaining momentum in a number of capitals; even Sir Geoffrey Howe, the British Foreign Secretary, has now given it a relatively warm endorsement.

At another level, a forward impetus has already been given to European collaboration in a number of high-technology projects, and more could be done

where the European dimension is appropriate. By contrast, it seems slightly eccentric, at this stage in the Community's development, to argue for European integration in such fields as education, health or justice. There may well be a case for more co-operation in industrial training, or between national health authorities. But it is not obvious that the attempt to create full-blown education or health policies for the Community would, in the foreseeable future, bring advantages which outweighed the costs.

But President Mitterrand's speech need not and should not be read as a final blueprint, to be accepted or rejected as a package. And it is almost certainly a mistake to take his reference to a "two-speed" Europe as an attempt to blackmail or exclude governments which do not endorse his proposals: a two-speed Europe already exists in the European Monetary System, and it will become more visible if WTEU starts to function effectively.

Nor is there any case for over-dramatising President Mitterrand's arguments in favour of more majority voting in the Council of Ministers. He has not recanted on the Gaullist proposition that member governments should retain the right of veto in very important issues; he just says, and rightly, that recourse to national vetoes has to be performed by the Council of Ministers.

The force of his initiative lies not in any of the specifics, but in the cumulative proposition that, in their own self-interest, the European countries can and must work much more closely together, and that such co-operation is possible in many ways and many different fields.

Presumably, the other member states will start to formulate their responses to President Mitterrand's call in time for the summit in a month's time. Some, like Germany, Italy and the Benelux countries, can be expected to be enthusiastic; some others may be sceptical or, at best, hostile to anything that smacks of closer political integration in Europe. The most valuable service that can be performed by those governments that want more European co-operation rather than less, is to make clear that they are not to be held back by the minimalists and the foot-draggers.

Tax rules for overseas profits

THE vigorous public debate that has greeted the Budget's centre-piece—the reform of corporation tax—has tended to drown continuing worries about other, more technical proposals that would in the long run have an important effect on companies. The section of the Finance Bill concerned with controlled foreign companies (CFC) is a case in point.

The Inland Revenue takes the line that the CFC legislation is not even a controversial issue. It is old hat because there has been a lengthy consultation lasting three years. However, the consultation process has left most experts outside government unhappy about both the detail and spirit of the proposed new law. Ministers, too, are thought still to have doubts.

Critics of the new legislation include the main accountability bodies, bankers, the Institute for Taxation and the Confederation of British Industry, not to mention most of Britain's blue-chip companies. These bodies hold no special brief for the few sharp operators the new law is designed to snare. So why does the CFC legislation generate so much heat?

First, because it has such a broad sweep: every British company controlling an overseas subsidiary potentially falls foul of it.

At one stage it looked as though the Inland Revenue would lessen the burden by issuing a statutory list of non-havens — "normal" countries like West Germany and the U.S. Companies that trade only in these non-havens (the vast majority) could then ignore the new rules. However, after the Budget, the Inland Revenue made a small but devastating change in its draft list of non-havens. It added the seemingly harmless proviso that if it thought companies were using the countries to avoid tax, they could after all fall under the CFC legislation. The list is in effect worthless since companies anywhere abroad doing legitimate business must now worry lest the Revenue disagrees.

The second big worry is that the CFC rules introduce, through the back door, the first step towards an American approach to the taxation of companies' worldwide earnings. Until now, the British tax authority's jurisdiction has stopped at Britain's shores. But when the Finance Bill reaches Royal Assent, it will have potential access to the earnings of British companies' subsidiaries overseas if their tax bill is higher than what it would be in the UK. Companies with lightly-taxed overseas subsidiaries are guilty of tax avoidance unless they can prove their innocence by meeting one of three complex escape clauses.

While the spiriting of profits out of Britain may be wrong, it is less clear that overseas profits even if they are not earned through what the Inland Revenue regards as a bona fide trade (and so fall its first escape clause) should be potential game for the British taxman. While there is a second escape route called the "motive test," companies argue it gives the authorities too much leeway. Motives are a matter for debate and one is wrongly motivated" transaction by the overseas subsidiary can land a multinational in the soup.

Questions

The third escape route, the so-called "acceptable distribution" policy, is also questioned: if a company falls the above tests and a suspect subsidiary distributes at least half its profits back to Britain, it can escape the CFC levy. But why should it distribute back to Britain rather than to some other country where the multinational has an interest?

MPs still have time to ask two questions. Will the new CFC legislation raise enough revenue to justify its compliance and collection costs? The Revenue has yet to produce a convincing cost-benefit analysis. Second, could not a set of rules more narrowly focused on the few genuine offenders be devised?

Given all the worries, it might be best to delay the CFC legislation for another year. Britain has managed well without it for as long as companies have traded abroad. The suspicion in some quarters is that the Inland Revenue is really seeking a substitute for the sort of powers it enjoyed in the bad old days of exchange controls. Ministers should be prepared to grant tax officials specific powers to counter specific abuses. The need for blanket new powers is unproven.

84 EUROPEAN ELECTION

"THE European Parliament is undoubtedly a much more important body than it was five years ago... but I am not at all sure I can tell you why," a senior EEC official said last week, shouting to make himself heard above the end-of-term merriment in the members' bar of parliament in Strasbourg.

If those closely involved in European Community politics find the parliament difficult to assess, what an earth are the 210m potential voters to make of it? Opinion polls suggest that the first directly-elected parliament has not branded itself deeply into the public consciousness. The most recent Community-wide soundings showed that little more than 40 per cent of respondents thought the coming elections were an event of much importance.

Irrespective of whether the parliament is an irrelevance or an essential vehicle for closer Community political development, the campaign is already demonstrating one tangible result of direct elections: on television and radio, in newspapers and on the streets, issues and problems are being discussed in more than a merely national context.

Although the Community has no responsibility for defence, candidates in France, West Germany and the UK can be heard arguing the case for closer security co-operation in Europe. Socialists in all countries are campaigning for more effective industrial and employment policies at Community level and pledging renewed efforts to advance workers' rights. To their right, the various Conservative, Christian Democrat and Liberal parties are arguing for closer economic co-operation, the removal of barriers to trade and measures to stimulate investment and enterprise.

Unfortunately, many voters will take all this Eurotalk with a pinch of cynicism. The Community they are used to hearing and reading about is associated with political deadlock and

men, consumers and citizens. Five years on, the waters are muddier and there is a record to be examined. On the whole it is a respectable but—to the regret of many candidates—rather unexciting one. Pieter Dankert, the Dutch socialist who has been the parliament's president for the past two and a half years, summed it up rather neatly last week. People should come out and vote, he said, because the parliament fills a "democratic gap."

National parliaments, with the possible exception of the Danish, are wholly inadequate when it comes to scrutinising and controlling what governments do in the community. The EEC is now a formidably active legislator and without the parliament, Dankert implied, citizens' rights would be poorly protected.

It follows from this that much of the parliament's most important work is largely unremarked. It has no legislative powers to speak of, but it is required to scrutinise all of the European Commission's proposals. It can make amendments but neither the commission nor the Council of Ministers need take any notice.

In fact, the commission has taken increasing account of the Parliament's views and the council, composed after all of elected politicians with party links to MEPs, has become more respectful. The commission, headed by Gaston Thorn, has come to see the Parliament as a useful ally in arguing for its proposals with the council and a potentially dangerous enemy because of the Parliament's power—so far unused—to dismiss the 14 commissioners.

The council has become more respectful

budget rows, with plant closures and job losses in steel, shipbuilding and textiles and apparently lacking an effective answer to recession and unemployment. Above all, they will be asking what the European Parliament can do to change matters and why they should bother to vote at all on June 14 (in the UK, Ireland, the Netherlands and Denmark) and June 17 (in the rest).

The questions will trouble many candidates across the Ten. In the 1979 campaign it was possible to urge electorates to bring about the democratic transformation of an institution which could serve every political prejudice. If you wanted more political and economic integration, then a directly-elected parliament was to be its motive force. If you preferred the status quo, then you were bidden to send representatives to Strasbourg who would spike the federalist dream. In any case, you needed elected members in the parliament capable of defending your interests as workers, business-

Nuclear auction — cash down

Electricity people from many parts of the world are being invited to a most unusual sale. A semi-completed, pressurised water reactor nuclear power station in the U.S. is to go under the hammer.

So keen is Jersey Central Power and Light to rid itself of its Forked River project in New Jersey, some 65 miles south of New York, that the auctioneers are promising "everything sells regardless of price"—provided that you pay on the day of the sale.

The site was prepared and foundations installed and assembly of the reactor itself and generators was just starting when the company did a recount and concluded that power demand in future years would not justify running the station. The sale will include the components for a pressure vessel to contain the nuclear reactor, stainless steel internals and a giant 1,180 megawatt Brown Boveri turbo generator. There are even assorted computers to run the machinery and everything is said to be carefully wrapped and in an "as new" condition.

Brown jogs in

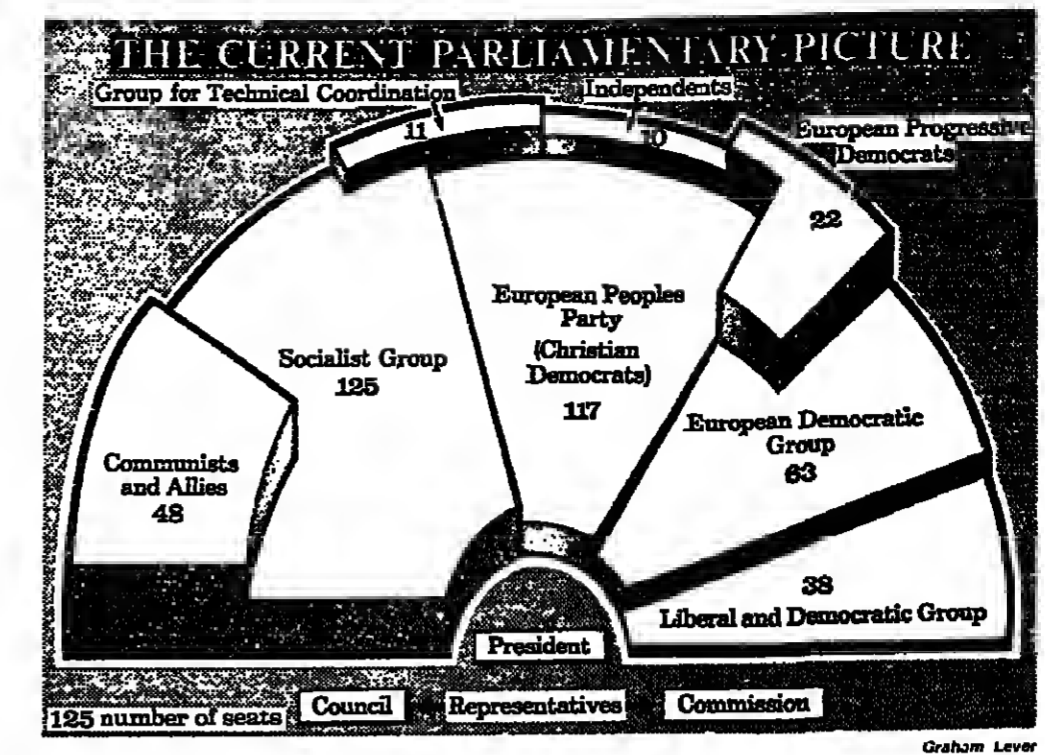
Michael Brown, next president and chief executive of the International Organisation after Gordon Brunton retires at the end of the year, was one of the bright young men the late Lord Thomson of Fleet gathered about him in London in the early 1960s.

"The trouble is," says one of his colleagues, "that after more than 20 years with the company he shows up the rest of us by still looking as young and as bright as ever."

That may be because Brown, now aged 49 and living in Greenwich, Connecticut, where he is head of the Thomson U.S. subsidiary, keeps in trim by jogging. Otherwise, I am told, his hobby is work.

He has spent much of his time in recent years on aeroplanes running Thomson's 60 U.S. operating companies in publishing, oil and gas and travel. Brunton will be a hard man to follow. Retiring at 63 he has been with the Thomson organisation for 25 years and for the past 16 years has been chief executive. Lord Thomson, the present chairman, paid tribute to him yesterday for his work in the development of the group's magazine, travel and oil interests and, recently, the rapid expansion by Thomson in the information and publishing business in North America.

Brown left a job in engineering to join Lord Thomson in Britain and became a director



Real progress, despite all the cynicism

By John Wyles, Common Market Correspondent

Most of the 64 United Kingdom MEPs who are standing again can recite successes in securing beneficial changes to proposed legislation. Joyce Quin, contesting Tyne and Wear for Labour, mentions amendments to fisheries proposals of benefit to fishermen in the North-East of England.

David Curry, defending Essex North-East for the Conservatives, has taken the food processing industry under his wing, while Britain's "Mr Agriculture," Sir Henry Plumb, the Tory group leader, has exploited the perhaps too-wide open door which the farming interest has in Brussels.

Yet a representational role can be frustrating and politically unrewarding if it deals only

launched personal campaigns of one kind or another. Stanley Johnson, the Tory member for Wight and Hampshire East who is not standing again, scored a spectacular success by mobilising the parliament behind a ban on imported baby seal skins, which eventually became Community policy.

The other remarkable personal achievement of the parliament was Altiero Spinielli's success in pushing through a draft treaty on European union. The Italian communist's initiative was in many respects the clearest expression of the parliament's dissatisfaction with its present powers.

The chances of it being adopted by governments are remote, despite President Mitterrand saying last week that France shared the spirit of the initiative. But the provisions of the draft treaty do serve to highlight the parliament's case for powers to initiate policy proposals and for a greater measure of influence over the council.

Where it already has such influence — through shared powers in setting the budget — the parliament has not always acted consistently. Its rejection of the 1980 budget in support of a demand for a better balance between agricultural and other spending set a theme that has been tenaciously pursued. But equally tenacious support for extravagant requests rises undermined the credibility of the parliament's stance. Also, its pressure on governments to reform the budget and to provide increased budget revenues has been a significant positive factor both serving and complicating the cause of a



Italy the Socialists will be looking for an increased share of the vote and endorsement of Bettino Craxi's tenure of premiership. In Greece, Prime Minister Andreas Papandreu may be tempted to call a general election in the autumn if the swing away from his Socialist Party is only a modest one, while the Danish Socialists will be looking for a recovery after last year's national elections. In the Netherlands, meanwhile, the row over cruise-missile deployment is bound to have an impact on the fortunes of the Christian Democrat-Liberal coalition.

To be sure, the domestic political stakes riding on these elections will generate most of the effort put into them and the public will not receive the full benefit of the election. The nation state remains, therefore, the source of primary interest and concern.

Nevertheless, it is both intriguing and impressive that the by-product should be a budget and to provide increased nationalities a considerably factor both serving and complicating the cause of a

Men and Matters

of Times Newspapers while still in his twenties. He moved on to become finance director of the Thomson Group. He played an important part in the Thomson move into North Sea oil and by the early 1970s was the first chief executive of the Thomson oil group.

He has been an executive vice-president of the International Thomson Organisation since 1978.

A few survive

The rules of the Tercentenarians' Club are guaranteed to keep its reputation as one of the most exclusive business clubs in the world.

Not that there is anything complicated about them. Indeed, they are devastatingly simple. To qualify firms must be able to show a connection with the families of their founders for 300 years or more.

Founded 16 years ago the club has just held its annual lunch at Chartwell, Kent, the former home of Sir Winston Churchill, with a local company acting as hosts.

The proud boast of R. Durnell and Sons of Bradford, Kent, is that they have been builders since 1591. One member of the family, Lieut-Col C. S. Durnell, traced the story in a book from an Acorn to an Oak Tree—although these days they are just as likely to be working with tower cranes and concrete.

Other members of the club at Chartwell were C. Hoare, the London bankers, Firmin and Sons, the Birmingham engineers, and two textile makers, James Kenyon, now a division of Albany International, of Bury, Lancashire, and Early's of Witney.

The exclusive nature of the club breeds its own perils, of course. Can it survive the present age of takeovers, mergers and management buy-outs?

Very occasionally members are delighted to hear of an aspiring new member—another

Jumbo row

I hear from the Canadian High Commission that there is no love lost between Brigitte Bardot and Canadian customs officers.

"They are pains in the neck," says the French actress who is angry over their intervention in her latest gesture to save the baby seals.

Bardot sent a valuable bracelet to be auctioned by a Quebec animal welfare group at a fund-raising affair. The trouble is that it is an ivory bracelet and Canadian officials are demanding a declaration from France that she has a permit to export ivory.

Minister Pierre Bussieres, defending the honour of the revenue department explains that the international rules are quite clear. Ivory exports and imports are banned because the elephant is an endangered species, he says.

Bardot says she wants the bracelet back.

No luck

In a manner of speaking Hong Kong's future was up for sale at the weekend. And there were not many takers.

A local education worker, Ng Po-Keung, paid HK\$21,000 for the privilege of owning car number plate EK 1997 in the latest of a series of regular government auctions of car registration numbers.

Compared to the price with the HK\$1.03m paid last year by Hong Kong millionaire Cheng King Sze for the lucky number 3.

Clearly bidders at the auction did not feel that 1997—the year when the territory's lease runs out—is going to turn them very far.

Ng Po-Keung says he bought the number for fun. He does not have a car.

THE NORTHERN IRELAND PARTNERSHIP

For more information write to:
The Northern Ireland Partnership, 64 Chichester Street, Belfast BT1 4JX, Northern Ireland. 0232 232233

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Observer

A FLUME of smoke billows from the exhaust stack of a chopper truck trundling along the waterfront at Liverpool's huge defunct Albert Dock.

Above, a gang of men toils on the spiderwork of scaffolding, restoring the historic structure into flats, offices, a wine bar and restaurant, a sign of the Government's special initiatives on Merseyside.

The 120 apartments are likely to be offered for between £40,000 to £75,000 when they come on to the market in two years. In the city with a budget, there appears to be no shortage of takers.

Half a mile away, in Lake Street, Mrs Irene Thorpe, a pensioner, stares stonily from the balcony of her drab flat in a five-storey high-density tenement, one of half-a-dozen similar blocks making up Sussex Gardens.

Sussex Gardens is due for demolition in four years. It demonstrates the striking contrast between the urban regeneration, which has brought the blossoms of the International Garden Festival, and the cancer within Liverpool's housing stock.

In a year when the Post Office has issued special stamps marking urban renewal, such pockets of inner city regeneration go hand-in-hand with persistent reminders of the failure to supply adequate housing, not just in Liverpool, but in many of Britain's cities.

In Liverpool, council housing and its cost is one of the biggest single elements in the city's revenue budget when it once provided 40 per cent.

Liverpool's housing crisis

Where the run-down and the renovated rub shoulders

Nick Garnett reports on the cash problems facing the city without a budget

Almost 200,000 people out of Liverpool's population of 450,000 live in council dwellings.

Council house rents average £17 a week, possibly the highest outside Greater London.

"The capital allocation nowhere near meets need," says a senior housing officer. "Maintenance is underfunded and revenue expenditure is just plainly inadequate."

In Sussex Gardens, the block's internal stairs, permeated by a slightly nauseous sweet smell, look like those of a correction centre. Pockets of rubbish, including shoes and a pair of trousers, have been trampled into the ground near the entrances and left, possibly for weeks — a mark of the apathy towards cleanliness and the environment which is prevalent in some parts of the city.

The landscaper is cheered by bright coloured bedding hanging drying from rods. A short walk up the hill and

the empty ground marks the site of the Rialto, burned down during the 1981 riots.

Mr Patrick Jenkin, the Environment Secretary, will be taking another look at housing conditions in Liverpool on a tour of the city next week. Standards of accommodation are one of two problems which confront the council and which would face commissioners if the Government is forced to bring them in to run the city.

The other is the way Liverpool's housing Direct Labour Organisation is run. The DLO, which employs 2,000 in repairing and building, faces problems including inefficient organisation, widely scored bonus payments which differentiate between maintenance and construction labour, frequently bitter inter-union friction and a lack of management direction.

DLO needs 28 per cent extra manning to cover absenteeism, sickness and holidays. Mr Ken Stewart, a joiner by trade and chairman of the city's housing committee, says theft of materials and equipment has cost £500,000 in the past two years.

Many of these difficulties are rooted in a decade of hung councils. They might also have something to do with the tradi-



Down comes the Texteth Rialto after the 1981 riots.

itional productivity problems on Merseyside, particularly in Liverpool's grossly inefficient refuse disposal services—and the influence of Communist shop stewards.

There have also been complaints for many years about the standard of DLO workmanship. The labour group, seeking to find work for the DLO based on its contentious policy of no job cuts, dipped further into the revenue budget last year by putting virtually the whole maintenance labour force to work replacing bathrooms on the Dovecot Estate, which was built in the 1930s. The prefabricated bathrooms, added in the 1970s were disintegrating, but using maintenance-trained labour for building work led to big delays and quality problems. It also slowed down to a trickle maintenance work on other council dwellings.

On the other hand, Labour says it is committed to improving efficiency, reducing administrative overheads and instituting a strategy of 17 high priority areas in the public sector and 100 improvement areas in the private sector, and has started 700 new council houses in the last year.

Poverty and apathy frequently combine to produce litter and

Britain's most deprived ward

It is easy to forget the chronic immediate post-war housing conditions of many older council estates. Down by the docks in Liverpool, some terraced streets were just 15 feet wide, allowing almost no light into the houses. Lavatories were communal latrines at the bottom of the road.

Things have improved, though people living in some deprived and distressed areas might be forgiven for not acknowledging that. Liverpool's current housing quandaries reflect the three classic troubles of obsolescence, bad design and poor construction.

Further down, three massive tower blocks known as "The Pigeons" stand empty, the subject of legal action between the council and the company to which the blocks were leased. The Pigeons will have to be demolished.

The Government is anxious to see local authorities operate more efficiently, and it now requires the Direct Works department to compete with the private sector on all but small construction projects.

It encourages councils to put up rents and rates to cover the financial gaps. Too much money has been wasted, it says. Liverpool's Labour group says it will not raise rents, cut jobs or put up the rates by a large amount and complains that costing structures put the Direct Labour Organisation at a gross disadvantage when competing with private builders.

It asked for £114m capital allocation instead of the £38.5m it received. Meanwhile the Liverpool budgetary crisis rumbles on.

Shaw Street in Everton is by no means one of the worst, but it provides snapshots of a range of Liverpool's housing problems. At the top end is a terrace of dilapidated but protected Georgian housing. Across the road, Radcliffe Gardens, built in the 1940s on the model of a Cornish fishing village, lies partly vandalised. Pedestrianisation created enclosed alleyways through which people walk with trepidation.

Further down, three massive tower blocks known as "The Pigeons" stand empty, the subject of legal action between

Lombard

A case for more disclosure

By David Lascelles

EVERYONE knows the size of the developing countries' debt problem: anything up to \$700bn, according to the new IMF figures. But all talk of the threat this poses to the banking system is not particularly helpful without a parallel estimate of the ability of the banks to withstand it. What is needed is some way of putting the debt crisis into a context shaped not so much by fear as by a measure of the banks' strength.

Many people have tried to do this by expressing the size of the debt as a multiple of a bank's capital. "If Brazil went bust it would wipe out XYZ bank two times over, etc." But this is a crude measure that assumes an Armageddon, which looks unlikely even now, and overlooks the fact that banks have made certain provisions against loss, and written loans down.

These provisions may or may not be adequate—the argument about that will go on so long as the debt crisis does—but at least they represent the extent to which the banks are braced to absorb losses. If some way could be found to collect information about these provisions at the major lending banks in the biggest industrialised countries, aggregate them, and release them into the public domain, the results could be highly instructive, to put it mildly.

provisions of \$Xm against Brazil, \$Ym against Mexico, \$Zm against Argentina, and so on. The general provisions that banks make against unforeseen losses could be published as a separate total.

These totals would be subtracted from the BIS lending totals to give a net figure of what the banks are "in for" if any of these countries default. The indication would, of course, be very rough and would overlook the fact that some banks are much more precariously placed than others. But the point of the exercise would not be to pinpoint vulnerable banks as get an idea of the size of the problem.

Of course, there are objections to the scheme. Banks hate disclosing their provisions for fear of hurting public confidence and undermining their negotiating position with troubled borrowers. It would open the door to invidious comparisons and would be most firmly resisted by the U.S. banks who not only have the largest exposures but also the smallest provisions.

On the other hand, if bankers are reluctant to reveal their own secrets, they like nothing more than learning their competitors'. The totals would allow individual banks to see how their provisions rank against the average, which might be useful given the very subjective judgments that provisioning demands of them.

The greatest danger in the scheme is that it could backfire by disclosing just how poorly provisioned banks are against developing countries' loans (it could show the exact opposite, of course, which would be comforting but unlikely). But rather like the long-running debate about hidden reserves, experience shows that fuller disclosure usually does more good than harm, and that it is healthy for the case for banking secrecy to be tested from time to time. In this instance, it can even be argued that the tax-paying public has a right to know because it has already been called on to beef up the IMF's resources, and might well be asked to stump up more to ease a crisis for which the banks bear at least some of the responsibility.

Reorganising the Stock Exchange

From Mr D. Hunter

Sir,—Is it too late to place the responsibility for the reorganisation of the Stock Exchange on the Government, whose predecessors' legislation precipitated the call for revolutionary change? The Governor's newly appointed advisory committee is a small but welcome step in the right direction.

The legal profession was honoured by a Royal Commission which considered its activities. It was not left to the Law Society. As a result of these deliberations, some changes are taking place and they are doing so in the knowledge that they have been discussed and thought through by practitioners and end-users after wide debate. Parliament, too, has participated. Lloyd's scarcely set an enviable example of D.I.Y.

If the Stock Exchange is thought to be unworthy of a Royal Commission, it is surely worthy of a Governor's commission. Such a body using the Bank of England's authority would have a much greater chance of establishing the complete revolution which is understood to be required. The new advisory committee should be

Letters to the Editor

strengthened and promoted to this role. The Stock Exchange is already split into various interest groups whose first concern is naturally self-preservation and not the public interest. Allegiance to the previous system ceases with its compulsory extinction.

The Stock Exchange has always been one of the successful components of the City of London despite exchange control regulations which hobbled it until 1979. It should be allowed to remain an important part of the nation's financial structure.

The Stock Exchange council does not and cannot have the authority to impose these changes on the investment and financial community. Indeed, his suggestion that it will need statutory support to enforce its new rules, gives this point further emphasis.

Therefore, this vital responsibility should fall on those appointed by the Governor or

the Government to produce the improved system. Only then will the changes be accorded the respect which will be required if they are to create a thriving market, which London needs to remain a world financial centre.

In the U.S. the Government felt it necessary to supervise a far less radical change than that envisaged here.

D. H. Hunter, 2, Monness Road, SW2.

Intellectual property rights

From Mr J. Adams

Sir,—I would like to draw attention to some of the proposals contained in the Green Paper on intellectual property rights and an innovation which should give rise to serious concern. No one would disagree with the objects of the paper, which are, to improve the system of intellectual property in order to encourage innovation, and to help in particular

small enterprising firms. Unfortunately the proposals if acted upon are not only unlikely to achieve that object, but are quite likely to do so in a way worse than it is at present, and to result in British inventions being exploited abroad with impunity.

The authors of the report wish to help small companies operating only in the domestic market by introducing a cheap alternative to the patent system. At present such a system exists (for products as opposed to processes) in the form of copyright protection for three dimensional objects realised from drawings. This protection attaches without registration of any kind and is therefore free of cost. In place of this, the report proposes a "petty patent" system in which applications can be registered without examination of view. There is no doubt, that companies will draft their own claims and specifications (they can do this at present if they wish, but it needs expert knowledge). Such petty patents would enjoy the benefit of priority registrations in other countries under the Paris convention. Consequently if the invention turned out to be unexpectedly valuable it would be possible within the priority time to file abroad. The problem is that the foreign filings depend upon the British application. If the claim has been U-drafted the patents are likely to be worthless, and the invention will be freely exploitable by others. This is really the nub of the problem.

Claim drafting is a difficult and extremely technical subject. It requires both a knowledge of the technology involved and knowledge of the law. Claims mark out the boundary fence of the patentee's rights. The art is to push out that fence as far as possible without invalidating the patent. There is no cheap, easy, non-technical way around this problem, and the system proposed is quite likely simply to lead to the export of technology at value. For this reason the proposal to abolish the patent agents' "monopoly" is equally misguided: they would no doubt continue to enjoy a de facto monopoly by virtue of their expertise anyway.

The Government is concerned to encourage innovation, and it would be best to consider Mr William Kingston's proposals for invention warrants rather than misguidedly tinkering around with the existing intellectual property system. It is indeed an indica-

tion of the Green Paper's superficiality that these proposals are not discussed at all.

Other proposals contained in the Green Paper give cause for concern, but those mentioned here give rise to the greatest. J. N. Adams, Keynes College, The University, Canterbury, Kent.

Taxing profits does not make sense

From Mr J. Woodthorpe

Sir,—A tax on profits never really did make much sense. Consequently, it is unlikely that the budget really did help (May 21). And if a tax on profits does not make sense, a sometimes-mooted one related to turnover is even less likely to do so, since it would simply become a cost to the purchaser, and hence inflationary.

A much better approach surely, would be to recognise the corporation tax as a low yielding tax anyway, and to remove it altogether. In conjunction, companies would be required to distribute all profits to shareholders, who would then pay tax on the personal or institutional rate on the dividends. Companies would choose their own depreciation policy, whether it be 100 per cent first year write-off or straight line or decreasing balance, but once having done so, would be required to adhere to their choice.

Full distribution would accelerate capital mobility, and require companies to compete for new capital in the market-place. It would also ensure that all expense and investment decisions were made against the simple test of profitability, uncomplicated and unsubsidised by involuntary joint venture with the Inland Revenue—i.e., the rest of us. John Woodthorpe, 24, Eaton Place, SW1.

Allegations rejected

From the Press Attache, Embassy of the Islamic Republic of Iran

Sir,—In your issue of May 21 you printed an allegation made by the so-called People's Mujahedin Organisation claiming that 400 political prisoners had been executed in Iran on May 1.

While rejecting all such allegations levelled against the Islamic Republic of Iran, the Embassy of the Islamic Republic of Iran in London, would like to register its utmost surprise of the publication by your newspaper of such slanderous and unfounded allegations.

If your newspaper makes a claim to impartiality in this respect, it will also reflect our response to the above-mentioned allegations. M. R. Darvazeh, 27, Princes Gate, SW7.

Privatising British Airways and charter flights

From the Chairman, British Airways

Sir,—A report in the Financial Times (May 24) says that three of the largest air holiday travel groups are calling on the Civil Aviation Authority to establish a privatised British Airways from their market in the interests of "more competition," whereas their argument could lead to less competition.

Even if one ignores the fact that by the beginning of 1983, those particular companies controlled some 47 per cent of total scheduled flights in the UK, the argument is still based upon entirely false premises.

It is nonsense to suggest, for example, that a profitable privatised British Airways would effectively destroy competition in whole plane charters by "dumping" spare seats below full cost in this unregulated sector of airline operation. It is also a fact that whole plane charters are only flown into Heathrow by British Airways main base—under very exceptional and limited circumstances.

The suggestion that British Airways could use its resources to undercut competition in the charter sector, ignores the fact that such an attempt would be extremely expensive and could severely damage group results. The same logic no doubt explains why one of the companies involved in preparing this "evidence" for the Civil Aviation Authority, Britannia Airways, backed by the massive

resources of the Thomson Travel Group, has not launched a price war itself.

The past record of British Airways gives no ground for assuming that it will try to dominate the charter sector. Since 1974, British Airways' share of the UK non-scheduled operations including British Airtrons, has fallen from 21 per cent to 15 per cent since 1982. During that period, Britannia's share has risen from 17 per cent to 31 per cent, Air Europe's from nil to 9 per cent and Orion's from nil to 7 per cent. Overall the market has grown by 42 per cent, while British Airways' share has remained virtually static.

To argue that privatisation will radically reverse this trend is specious. Commercial pressures make it less likely, rather than more likely, that British Airways will attempt to overtake the charter sector which in 1982 carried 52 per cent of all UK international air passengers.

King, Cleveland House, St. James's Square, SW1.

From the Chief Executive, Manchester International Airport

Sir,—I feel I must answer John Mulken's letter of May 18. Manchester does, indeed, feel with some justification that present policies are discriminatory. Successive applications by carriers to operate direct scheduled services from Manchester have been opposed by British Airways

or other British carriers. Department of Transport (formerly Trade) representatives continually place the interests of airlines before users. The aim is to protect British airline rights out of London when foreign carriers such as Singapore Airlines and Pakistan International wish to serve Manchester.

As Mr Mulken states, Manchester is a hub airport for some types of traffic. In the quasi-deregulated non-scheduled sector of the industry airlines have diversified to serve a range of airports related to catchment area potential. Because of its greater accessibility Manchester has a wider catchment area than other airports in the north of England, such that when a particular route is operated from just one airport, Manchester is the natural choice.

Just as there is large demand for non-scheduled services, demand exists for scheduled services particularly to the presently unserved long-haul destinations. Government blocking tactics to protect the vested interests of airlines and airports in the south-east have prevented operation of these routes such that the hub effect at Manchester which appears so strong in global terms would disappear if scheduled services only were taken into account. G. W. Thompson, Manchester International Airport, Manchester.

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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Tuesday May 29 1984

HIGH STABILITY



**CRANE
FRUEHAUF**

U.S. worries raise doubts on trend of loan conditions

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

RENEWED worries about the health of the U.S. banking system last week raised new doubts about the trend of loan conditions in the Eurocredit market.

Wafer-thin interest margins which have become the norm for top-rated borrowers this year suddenly seem rather risky after Thursday's savage sell-off of U.S. bank shares on Wall Street.

There may have been no apparent justification for the stock market behaviour, but it serves as a blunt reminder of the fragility of financial markets at the moment. If that fragility were ever to spill over into the interbank market, low-margin loans would become hard to fund at a profit for many banks and conditions might have to tighten.

Against this background a climate of unusual hesitancy pervades the Eurocredit market. Mr Stavits Papestratou, a senior Bank of Greece official, said on Wednesday his country would wait for a few weeks to let the market settle down before announcing its next borrowing. By Friday it was clear that other borrowers, too, were standing on the sidelines.

All are watching the progress of Denmark's \$1bn standby credit launched through Manufacturers Hanover last Monday on terms that provoked at best a mixed reaction. A strong body of opinion in the market argues that its facility fee of 0.65 per cent is simply too low to make economic sense.

The general shortage of new business means that the deal should hardly flop, but what counts more is the quality of the lead management group and the ease with which it is assembled - and that will only become clear in the course of this week.

The Danish loan follows hard on the heels of another tightly priced deal, the \$1.5bn back-up to Sweden's recent floating rate note issue in the U.S.

Syndication closed last Wednesday with more than \$500m sold down in the market.

It is not surprising that Latin America has been returned to the list of banking worries. Besides the general borrower protest over rising rates, Argentina this Thursday faces a new deadline in its efforts to negotiate an economic programme with the IMF. Without it the rescue programme put in place last March by Mexico, Brazil, Venezuela and Colombia could unravel.

Argentine officials said last week that an agreement with the IMF was close and should be in place by June 15, but many bankers are still sceptical.

Even if Argentina does make rapid progress with the IMF it still faces a difficult round of talks with commercial banks, which will be asked to reschedule loans falling due between late 1982 and the end of this year as well as for a new money loan of up to \$3bn. Argentina also wants Western governments to reschedule about \$1.5bn in maturing debt, and these protracted talks could see at any time a revival of general banking uncertainty.

This does not mean, however, that the syndicated loan market has completely dried up. Last week saw the launch of another deal for the Soviet Foreign Trade Bank which is to be assembled mainly among Arab banks by the Paris-based FRAB Bank International. The club deal is for \$100m over five years at a margin of 1/4 per cent above Eurodollar rates and repayments will begin after a grace period of 2 1/2 years.

In the Far East terms have been set on a \$300m, eight-year credit being sought by Korea Eximbank. It will bear interest at 1/4 per cent over the mean of the bid and offered rates for London interbank dollar deposits for the first two years, and 1/2 per cent above the slightly higher offered rate for the remaining six.

Eurobond nervousness spurs flight to quality

BY MARY ANN SIEGHART IN LONDON

THE RELENTLESS slide in Euro-bond prices continued last week amid increased nervousness over the stability of the world banking system and, in particular, of U.S. banks with a large exposure to less developed countries' debt.

This nervousness has been in evidence to a certain extent since the Mexican crisis in the summer of 1982. But until the recent sharp rise in interest rates, most pundits felt that an ad hoc solution could be reached and that a world recovery would allow the debtor countries to muddle through.

Now investor attention is being focused more on the creditors than the debtors. The spate of rumours about Continental Illinois a fortnight ago was followed last week by scares about other U.S. banks, and especially those with large loans to Argentina.

As a result, the spread between the yields on bank bonds and those of top-rated sovereigns, supranationals and corporations has widened. The banks which have been the subject of the rumours have been particularly badly hit. Conti-

May 28	Previous
98.519	98.330
High	1983-84
100.009	Low
	98.055

mental Illinois dollar bonds are yielding well over 16 per cent, while Manufacturers Hanover's paper is yielding more than 15 per cent.

In this sort of highly-strung market, there is often a flight to quality. This was in evidence last week in the dollar sector.

Of the new issues launched, two did conspicuously better than the rest. Export-Import Bank of Japan (guaranteed by Japan) and the Rockefeller Group (guaranteed by Aetna Life and Casualty) launched 13 1/2 per cent bonds which sold well within their selling concessions.

Both are rare triple-A rated borrowers.

Caisse Nationale des Telecommunications, by contrast, though it too is rated triple-A, paid 1/4 per cent more on its coupon and still found the bond languishing at a discount of more than 2 points. The reason

was that the New York market crumbled as the issue was launched and the name did not carry the rarity value that might have tempted investors regardless.

Coupons have now got to a point where borrowers are loath to borrow fixed-rate money (though some bankers remember their potential borrowers complaining last year they did not want to issue bonds while coupons were still in double figures).

The floating rate note market seems slightly healthier. Three banks launched new deals last week and all traded at discounts within their fees.

Continental European markets have caught the jitters too. In the D-Mark sector, last week's only scheduled issue - a DM 150m bond for the Council of Europe - was postponed twice.

In Switzerland, prices fell by nearly a point on the week - a substantial loss in that market, which tends to be less volatile than its dollar and D-Mark counterparts. Investors there are nervous and turnover is low.

EURODOLLAR DEPOSITS

Crisis payment forced upon major banks with problems

BY DAVID LASCELLES IN LONDON

NERVOUSNESS about U.S. banks may have held the world in its thrall in the last few days. But much of the drama was actually played out at some distance from America's shores: in the trillion-dollar Eurodollar markets where U.S. banks raise their money, mostly through London.

Trading in these acutely sensitive markets ranged from "frantic to frozen" according to one dealer, as Continental Illinois tottered on the brink and rumours swirled about other U.S. banks in trouble. They had calmed down by the weekend but trading was still said to be nervous and thin.

The market for Eurodollar deposits (which is largely conducted by the banks themselves) is, after the domestic U.S. market, the largest financial market in the world. It consists of two separate but closely linked parts: large deposits which banks and cash-rich institutions place with other banks for a fixed period, anything from a day to several months, and certificates of deposit (CDs) which banks sell to investors, who may re-sell them in a secondary market.

Interest rates move in tandem, but tend to be slightly lower on CDs because investors can get their money back at any time simply by selling them (a bank issuing CDs starts ready to buy them back). To get deposits back, they have to "break" them and pay a penalty.

Though Eurodollar rates closely follow domestic U.S. rates, they are usually a little higher to offset the fact that banks have to put up reserves with the Fed on domestically raised deposits (the Fed also requires reserves on Eurodeposits brought into the U.S.).

The markets are very much at the sharp end of the world banking system, and the ability of a big international bank to tap them - and on good terms - is crucial to its standing, which is why bankers are very touchy about them.

Traditionally the top U.S. banks have commanded the finest terms. These are the nine biggest banks which belong to "the run," the domestic market for top quality CDs.

Normally, they trade on identical terms, and dealers accept paper without asking who issued it. But at times of crisis, the market differen-

tiates between banks and forces those with problems to pay more. Last week a gap opened up between Manufacturers Hanover's paper and that of Morgan Guaranty, America's most highly regarded bank. But Manufacturers stayed on the "run." Two years ago, Continental was forced off it after the Penn Square fiasco.

Even so, dealers said it was hard to gauge how much differentiation there was because few banks were willing to sell CDs, and investors were only interested in the shortest possible maturities.

The next tier down consists of the big UK clearing banks plus the strongest non-"run" U.S. banks and top Continental European banks. The large Japanese banks, which are more recent arrivals, are also increasingly highly regarded. This tier pays up to 1/4 per cent more for its money than the top tier.

Below that there are more tiers where banks pay bigger premiums the lower they go.

"Tiering" becomes more obvious in a crisis as investors try to place their money with the soundest-looking banks.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %	Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS								SWISS FRANC							
U.S. \$2	50	1999	15	3	100	Nikko Europe, Rbc, Fleming, Mitsubishi Fin.	3.800	Felard **	60	1990	-	6	100	UBS	6.800
Credit Lyonnais †	300	1996	12	1/4	100	Credit Lyonnais Salomon Bros.	-	PNM Austak ***	70	1989	-	6	100	CS	6.800
Ex. Int. Bank of Japan †	75	1991	7	13 1/4	100	Mgn. Guaranty, ITCE	13.250	Japan Devt. Bank	100	1994	-	-	-	SBC	-
Sansone ††	30	1984	10	1/4	100	Cont. W. Finance Asia, Yamaichi Int.	-	Mazda **	100	1989	-	2	100	UBS	-
CIT †	100	1991	7	12 1/4	100	BNF, CSFB	13.750	Nichols **	20	1989	-	1 1/4	100	Handelsbank	-
Toyota Trust ††	100	1999	15	1/4	100	CSFB, Toyo Trust Int., Nomura	-	GOLDERS							
Kleinwort Benson (a) (b) ††	150	1996	12	1/4	100	Sal. Bros.	-	Juland Tel. Co. †	50	1994	8	8 1/4	100.5	Amro Bank	9.172
Rockefeller Group †	100	1989	5	13 1/4	99 1/4	CSFB	13.322	ERB	300	1994	8	8 1/4	100	Amro Bank, ABN	-
CANADIAN DOLLARS								Argon †	100	1989	5	8 1/4	100	Amro Bank, ABN	8.250
Hydro Quebec	50	1991	7	14	100	Merrill Lynch	-	ECUs							
SWISS FRANC								EEC †	50	1991	7	11 1/4	100	SBCI, CSFB, UBS Secs.	11.250
Shin-Etsu Chemical **	30	1988	-	1 1/4	100	UBS	1.750	RIJ	40	1989	5	11 1/4	100	CCF	-
Toyoko Inns Co. **	50	1988	-	2	100	SBC	2.800	YEN							
ERB	100	1994	-	-	100	CS	-	New Zealand †	150	1988	6	7 1/4	98 1/4	Daiva Secs.	7.206
Zafjushi Vaccines **	20	1989	-	6 1/4	100	Wirtschafts- und Privatbank	6.125	Comed of Europe †	200	1994	9	7.5	100	Daiva Secs.	7.641

* Not yet priced. † Fixed term. ** Placement. † Floating rate note: spread over 6-month Libor. (a) spread over 6 month swap. (b) -50 million tap. Note: Yields are calculated on AIBD basis.

The Council of Europe Resettlement Fund

for National Refugees and Over-Population in Europe



£50,000,000
11 3/8% Bonds 1992
Issue price 100%

Hill Samuel & Co. Limited

- Bank Brussel Lambert N.V.
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- Berliner Handels- und Frankfurter Bank
- Commerzbank Aktiengesellschaft
- County Bank Limited
- Creditanstalt-Bankverein
- Crédit Lyonnais
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- IBJ International Limited
- Kleinwort, Benson Limited
- Lloyds Bank International Limited
- LTCB International Limited
- Mitsubishi Finance International Limited
- Orion Royal Bank Limited
- N. M. Rothschild & Sons Limited
- Sanwa Bank (Underwriters) Limited
- J. Henry Schroder Wagg & Co.
- Société Générale
- S. G. Warburg & Co. Ltd.
- Wood Gundy Limited
- Yamaichi International (Europe) Limited

29th May, 1984

European Economic Community



ECU 60,000,000
10 1/2% Bonds 1991
Issue price 99 3/4%

Underwritten by

- Caisse Générale d'Epargne et de Retraite/Algemene Spaar-en Lijfrentekas
- Amro International Limited
- Banque Internationale à Luxembourg S.A.
- Caisse des Dépôts et Consignations
- Caisse d'Epargne de l'Etat, Banque de l'Etat, Luxembourg
- Commerzbank Aktiengesellschaft
- Crédit Commercial de France
- Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft
- Hill Samuel & Co. Limited
- Istituto Bancario San Paolo di Torino
- Orion Royal Bank Limited
- Sparebanken Oslo Akershus
- Sparekassen SDS

Co-ordinated by
Hill Samuel & Co. Limited

29th May, 1984

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

U.S. BONDS

Crisis of confidence over talk of bank liquidity problems

THE TROUBLED U.S. financial markets open again today following a much-needed extended week-end break from the fear, rumours and turmoil that characterised trading late last week.

The credit market started the week in a now familiar rut, but on Thursday, a spate of strongly denied rumours about liquidity problems at several major U.S. banks—said to have originated in Europe—caused a crisis of investor confidence.

In a classic "flight to quality" investors scrambled for the shortest and most secure securities they could find—U.S. government Treasury bills, T-bill rates plunged while certificate of deposit rates soared and longer maturities just sank. The ripples were felt through-

out the whole of the U.S. financial system.

Events last week showed the sheer fragility of the U.S. markets. The trigger for the acute investor caution was the run on Continental Illinois two weeks ago which has focused attention on U.S. banks in general, and particularly on their exposure to less developed countries (LDCs).

This crisis of confidence, which resulted in a dramatic steepening of the yield curve to 369 basis points—the most positive since World War II (with the exception of August and September 1982 when the first phase of the international debt crisis was just sinking in) coincided with a Federal Reserve Board policy making Committee (FOMC) meeting, and the release of the March FOMC record late on Friday.

Wall Street economists see the Fed as being unable to alter its current monetary track significantly in either direction

Nippon Oil and Mitsubishi Oil in co-operation deal

BY OUR FINANCIAL STAFF

NIPPON OIL, Japan's biggest oil distributor, and Mitsubishi Oil, the fifth largest, yesterday announced a wide-ranging co-operation agreement expected to produce a grouping with around 25 per cent of the domestic oil products market.

The deal is the latest and potentially most important in a series of tie-ups, mergers, and co-operation agreements among the Japanese oil companies. The country's Ministry of International Trade and Industry is encouraging the links in order to rationalise a loss-plagued industry which it believes has

too much capacity and too many participants. The agreement, which the companies said would help them cut costs, covers crude oil purchasing, refinery operations, and the sale and distribution of oil products.

They have also agreed on limited ownership of each other's stock, but have not yet decided on the extent of the cross-holding. The companies will set up a joint committee to discuss details such as chartering and scheduling tankers, purchasing crude and using oil storage

tanks jointly. The committee will also discuss setting similar wholesale prices and banning intrusions into each other's prime marketing districts, Nippon said.

Starting with the merger of refinery operations between Maruzen Oil and Dairyo Oil announced last October, oil distributors have formed seven "groups" of differing degrees of co-operation. In some cases, the talks are only at the preliminary stage, but closer ties between the companies are expected.

Swire Pacific sees profits rise

BY DAVID DODWELL IN HONG KONG

SWIRE PACIFIC, the Hong Kong conglomerate with interests ranging from aviation and shipping to industry and general trading, yesterday forecast consolidated profits for 1984 of not less than HK\$318m (US\$128m) which would represent a 14.9 per cent increase on 1983.

The forecast was made in a document detailing the group's HK\$1.24bn cash and shares offer for the 37.5 per cent stake in Swire Properties that it does not already own. The parent

also forecast that Swire Properties would generate consolidated profits of HK\$290m this year, a 12.2 per cent fall from profits of HK\$330m in 1983.

Swire Pacific's profits increase would come from strong growth at Cathay Pacific, the airline in which Swire has a 70 per cent stake, and improvements in industrial and trading activities. Profits from property businesses and shipping would be lower, Mr Michael Miles, Swire Pacific's chairman, predicted.

Mr Miles explained the expected fall in Swire Properties' profits would result from investment property sales down from HK\$131.8m in 1983 to an expected HK\$50m this year. Core Investment, which with its private associate Honic is Hong Kong's largest electronics group, yesterday announced further details in publication of its 1983 result. Trading in the group's shares was suspended on May 17 after an announcement that substantial debts owed by a major shareholder may be irrecoverable.

TNT expects recovery in 1984-85

By Lachlan Drummond in Sydney

NET EARNINGS at Thomas Nationwide Transport, the Australian-based freight group, fell sharply to A\$1.9m in the third quarter to March 31 under the pressure of heavy losses on its trans-Atlantic shipping and U.S. road freight operations.

For the nine months earnings were down 12 per cent from a depressed total of A\$29.2m to A\$17m but the company expects full year profits roughly in line with the halved total of A\$31m achieved in 1982-83 and significantly higher 1984-85 earnings.

The third quarter is traditionally the lowest for TNT, although the latest result compares with A\$3.8m last time and A\$10m in 1981-82. The earnings forecast points to final quarter profits of around A\$14m which will reflect the reduction in losses on the North Atlantic, where its Trans Freight Lines subsidiary will gain the benefits of a more stable and higher-priced market following from the March 1 setting of new U.S.-Europe conference rates. These operations ran up losses of around A\$20m in the first half of the current year.

An unchanged third interim dividend of 3 per cent a share has been declared for a nine-months' total of 9 cents on earnings per share for the three quarters of 8.4 cents against 14.5 cents.

Second stock market for Johannesburg

BY JIM JONES IN JOHANNESBURG

THE Johannesburg Stock Exchange (JSE) is on the verge of establishing a second market for small, new companies which do not otherwise qualify for a listing on the main stock exchange board. The new market is to be known as the Development Capital Market (DCM), an essential development, says Mr Paul Ferguson, the outgoing JSE president.

This has been proved by the remarkable success of London's unlisted securities market and New York's over-the-counter market, Mr Ferguson added. The proposals have still to be approved by the Registrar of Financial Institutions, but this exchange is confident that this will be forthcoming even if certain modifications to the proposals are needed. Guidelines for a listing on the DCM are that a company should have a normal share capital and reserves of at least R0.5m (R0.5m); at least 1m shares in issue; an acceptable two-year trading record; and a current audited profit of R150,000 (though this requirement can be waived in the case of mining companies); at least 10 per cent of the issued shares held by the public; and at least 75 shareholders.

Fedfeed, the South African food group, has reported increased turnover and profits, due mainly to better pelagic fish catches in Namibian waters and improved results from the bakery division. Turnover increased by 10.5 per cent to R730.7m in the year to March from R650.2m in the preceding year. Operating income before interest and tax rose by 17.3 per cent to R52.9m from R45.1m.

Mr Jan Louw, the managing director, says the bakery division benefited from rationalisation of delivery areas and a switch by black consumers to bread away from maize meal. He adds that the maize milling and edible oil division was only able to maintain market share under difficult trading conditions.

A total dividend of 30 cents has been declared from earnings of 82 cents a share. In the previous year earnings were 65 cents a share and a total dividend of 27 cents was declared. The South African newspaper group which publishes the Star and the Cape Argus, increased pre-tax profit significantly during the 13 months to March. The consolidation of the printing company, Hortors and the stationery and records group, CNA-Gallo. Pre-tax profit was R46.7m against R20.5m in the previous year.

A total dividend of 375 cents has been declared from earnings of 1,165 cents a share. In the preceding year earnings were 908 cents a share and a dividend of 300 cents was declared.

companies in the UK, France, Benelux, Italy, Scandinavia and Germany, and he will continue to be based in Brussels for the foreseeable future.

Dr Alfred Hartmann, vice-chairman of F. HOFFMANN-LA ROCHE AND CO. Basle, and until 1979 the company's managing director, has decided to resign from the Roche board for professional reasons. Dr Hartmann is currently general manager of the Rothschild Bank Zurich.

At the company's June 6 shareholders' meeting, Dr Raymond Probst, former Secretary of State in the Swiss Foreign Office, is to be nominated for election to the board with a view to becoming vice-chairman in place of Dr Hartmann.

Mr Claude L. Taylor has been appointed full-time chairman of the board, and Mr Pierre J. Jeannot becomes president and chief executive officer of AIR CANADA, from June 1.

New president for Visa International

● VISA INTERNATIONAL and VISA USA have elected Mr Charles T. Russell as president and chief executive officer of both organisations succeeding Mr D. M. Heck who has been elected an adviser to both boards. Mr Russell was president and chief operating officer of Visa USA and executive vice-president of Visa International.

● Dr Gerard Batliner, former head of the Liechtenstein Government, and Dr Rudolf Stahn, general manager of Winterthur Swiss Insurance Company, have been appointed to the board of VERVALTUNGS-UND PRIVATBANK, Vaduz.

● Mr Fredy Dellis, president of the Europe, Africa, Middle East and Canada division of the HERTZ CORPORATION, has been appointed to worldwide HQ in New York as executive vice president—international operations and leasing. He will be responsible for all operating functions outside the U.S., including the Hertz U.S. car leasing division, Hertz Europe (the company's Europe, Africa and Middle East division) and Hertz International (Canada, Mexico, Panama, Puerto Rico and the worldwide franchise operations). He is replaced in the Europe, Africa and Middle East division by Mr John Hambly, who is appointed vice president and general manager, Hertz Europe. Mr Hambly returns to the European headquarters following 12 months as general manager of Hertz in the UK. Mr Chris Kelly, who has also completed a 12-month job

INTERNATIONAL APPOINTMENTS

● Mr R. J. Angel has been appointed managing, international planning and marketing division manager of BP Chemicals in December 1983. While remaining president-director of BP Chemicals (Switzerland) SA, Mr Turnbull plans to move from Geneva to London in the summer of this year, from which time Mr Depretere will act for him in respect of day-to-day management and co-ordination of BP Chemicals (Switzerland) SA. Mr G. F. Ashton, Mr S. M. Gazi and Mr L. E. Joye have resigned as directors of NORTH KATALANES, Mr P. C. Lucas and Mr A. Pearce have joined the board.

● Mr Ronald Lagden, president-Europe for International Property Services, becomes QUAKER OATS chairman-Europe, from October 1. His role will change from executive direction of Quaker businesses in continental Europe to a more strategic capacity with emphasis on longer-term development. He will remain on the boards of Quaker



Mr Fredy Dellis, Hertz executive vice-president international operations and leasing. Rotation at Hertz Europe in Cranford, Middlesex, takes control of the UK car rental operations as managing director, Hertz UK Cars.

COMMODORE INTERNATIONAL

COMMODORE INTERNATIONAL has named Mr Alexander H. Reid, former U.S. Secretary of State, to its board. He has also been retained as a consultant to the company.

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Advertisement for The Steam Engine, featuring an illustration of a large industrial steam engine and text describing its invention by Thomas Newcomen. The text includes 'The Industrial Revolution was made possible by the Thomas Newcomen, the first man to devise a practical method of harnessing steam, in 1712.' and 'The financier John Roebuck's contribution was to harness some £2,600 capital in 1715 without which the Newcomen steam engine might never have been exploited.'

Advertisement for European Banking, titled 'FINANCIAL ENGINEERING'. It describes the problems solved by financial engineers and lists services offered by European Banking Company Limited and European Banking Company S.A. Brussels. Contact information includes addresses in London and Brussels, and telephone/telex numbers.

FT INTERNATIONAL BOND SERVICE table. Columns include U.S. DOLLAR STRAIGHTS, DEUTSCHE MARK STRAIGHTS, SWISS FRANC STRAIGHTS, EUROBOOND TURNOVER, and CONVERTIBLE BONDS. Each section lists various bond issues with columns for Issued, Bid, Offer, Change, and Yield.

INTL. COMPANIES & FINANCE

Nordic building materials groups to join forces

BY KEVIN DONE, NORDIC CORRESPONDENT IN STOCKHOLM

EUROC of Sweden and Norcem of Norway, two of the largest building materials groups in the Nordic region, are joining forces in order to improve their competitiveness in international markets.

In deals worth more than SKr 300m (\$37.3m) in total the two companies are acquiring substantial minority shareholdings in each other, and each will have representation on the other's main board.

EUROC is to pay Nkr 119m to purchase 426,500 new shares in Norcem giving it a holding of 15 per cent.

At the same time EUROC is to issue 510,000 new shares to Norcem for SKr 173m giving the Norwegian company a hold-

ing of 13 per cent. The stake is later to be expanded to 15 per cent.

Mr Sven Borellin, EUROC's chief executive, said the deal represented one of the most comprehensive industrial co-operation agreements made between Norwegian and Swedish companies.

"The co-operation is aimed above all at new international projects such as cement terminals and production plants and the development of new products for the construction market," he said.

Both companies are aiming to increase their international trading activities through the co-operation and the deal will also bring EUROC closer to the

Norwegian offshore oil and gas industry.

Norcem is already a small shareholder in the Norwegian oil companies Saga and NOCO (Norwegian Oil Consortium) and it recently acquired a 25 per cent stake in the Norwegian Aker group, which specialises in offshore fabrication.

EUROC, which is also in engineering and trading, still gains more than 50 per cent of its SKr 4.7bn turnover from building materials. It is the only cement producer in Sweden, as is Norcem in Norway. Norcem derives around two-thirds of its Nkr 3.5bn turnover from building materials and is one of Norway's biggest industrial concerns.

Steinberg expected to raise stake in Disney

By Our New York Staff

THE STRUGGLE for control of Walt Disney Productions is likely to come to a head today when Mr Saul Steinberg is expected to launch his long-awaited move to increase his stake in the film and entertainment group.

Wall Street believes that the Marriott hotel chain is considering joining Mr Steinberg in a bid for 49 per cent of the Disney equity, which would cost about \$900m. The stock market expects a bid of between \$70 and \$73 a share for the Disney stock, which closed ahead of the Memorial Day weekend at \$67 after a day of heavy trading.

Mr Steinberg's private company, Reliance Holdings, already has 12.2 per cent of the Disney common stock and last week received clearance from the Federal Trade Commission to increase the stake to 49.9 per cent. Still in doubt, however, is whether Mr Steinberg would settle for 49.9 per cent or use this as a base for a full bid.

In a move to thwart any unwanted takeover, the Disney board agreed a week ago to link up with the Bass brothers of Texas, by purchasing for \$200m Arvida, their private, family-controlled company, which has substantial land holdings in Florida.

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Group given 60 days to bid for MGIC

By Terry Byland in New York

A MANAGEMENT group which is considering making a buyout offer for MGIC Investment, the mortgage insurance subsidiary of Baldwin-United, is believed to have been granted 60 days to put together its proposal before a Masters Commission of the Arkansas and Indiana courts rules on any rival offer.

Baldwin, which filed under Chapter 11 of the federal bankruptcy code last September, paid \$1.2bn for MGIC. Mr Victor Palmieri, chairman of Baldwin, said the Milwaukee-based group would seek "at least \$1bn" for MGIC. Ford Motor Credit, the financing subsidiary of the Detroit motor group, denied rumours that it has offered \$800m.

Volvo unit blames consultants

BY DAVID BROWN IN STOCKHOLM

SCANDINAVIAN Trading Corporation, the troubled oil trading, and oil and gas producing unit of Volvo, has blamed the huge over-valuation of oil and gas properties in its Scandril unit on major miscalculations by consultants.

Scandril has been transferred to Bankers Trust Company of the U.S., which held the oil and gas properties as collateral against a \$105m loan. STC will withdraw from oil production and become a strictly trading operation.

Volvo has already made a pro-

vision in its 1983 balance sheet of some SKr 500m (\$62m) to cover its agreement to underwrite the Scandril disposal.

The over-valuation of Scandril's assets cost STC SKr 703m. It ran up further losses of SKr 740m last year in its trading operations, it was stated.

Volvo, which has an 81 per cent stake in the company, has been forced to pump in some SKr 760m in new equity in the past year to ensure STC's creditworthiness. The affair has been an embarrassment at a time when the motor group's profits

have otherwise developed very positively.

As expected, over half the STC board has been replaced and the number of Volvo representatives increased.

The company made a pre-tax profit of SKr 35m during the first quarter this year on turnover of SKr 6.9bn and is on the road to recovery, said Mr Jan Danielson, STC's managing director.

STC is also moving ahead with plans to launch its profitable finance subsidiary on the stock market, he said.

EIB announces terms of record bond issue

By Walter Ellis in Amsterdam

THE European Investment Bank (EIB) yesterday announced the terms of a record F1300m bond issue that is expected to give a considerable boost to the faltering Dutch bond market.

The 10-year issue, lead-managed by Amsterdam-Rotterdam Bank, with Algemene Bank Nederland as co-lead manager, has a coupon of 8.75 per cent—0.25 points higher than a state loan earlier this month—and has been priced at 99½ to yield 8.84 per cent.

Italcementi net earnings show advance of 75%

BY ALAN FRIEDMAN IN MILAN

ITALCEMENTI, the cement company controlled by Sig Carlo Pesenti, has reported a 1983 net profit of L21bn (\$12.4m), up 75 per cent on the previous year.

Sig Pesenti is the 77-year-old Milan-based financier who is currently under investigation by Milan magistrates along with Archbishop Paul Marcinkus, chairman of the Vatican Bank. The two men are being investigated for possible illegalities in connection with a L20bn loan made by the Vatican Bank in 1972 to Sig Pesenti's Ital-

mobiliare holding company, Itamobiliare controls Italcementi, among other companies.

The cement company recorded a 1983 turnover of L910bn, up from L660bn the year before. Italcementi's 1983 investments were reported to be L600m, against L560m in 1982.

Sig Pesenti, who was the largest single shareholder of the now collapsed Banco Ambrosiano, is understood to be considering the sale of his last major bank holding—Banca Provinciale Lombarda.

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Loh

LEVERAGED CAPITAL HOLDINGS N.V.
Curacao, Netherlands Antilles

Notice of Annual General Meeting of Shareholders

Notice is hereby given that an Annual General Meeting of Shareholders of Leveraged Capital Holdings N.V. has been called by the Manager, Intimis Management Company N.V.

The Meeting will take place at the offices of the Company, John B. Gorsiraweg 6, Willemstad, Curacao, Netherlands Antilles on 21st June, 1984 at 10.00 a.m.

The Agenda, the Annual Report for 1983 and further details may be obtained from the offices of the Company or from the Paying Agent mentioned hereunder.

Shareholders will be admitted to the meeting on presentation of their certificates or of vouchers, which may be obtained from the Paying Agent against delivery of certificates on or before 14th June, 1984.

Willemstad, 29th May, 1984.

INTIMIS MANAGEMENT COMPANY N.V.

Paying Agent:
Pierson, Haldring & Pierson N.V.
Herengracht 214
Amsterdam.

U.S. \$60,000,000
Caixa Geral de Depósitos

(A state credit institution established under the laws of the Republic of Portugal)

Floating Rate Deposit Notes 1994

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the six months 29th May, 1984 to 29th November, 1984 has been fixed at 12½ per cent per annum and that the coupon amount payable on 29th November, 1984 will be U.S. \$648.47 per Note of U.S. \$10,000 and U.S. \$6,484.72 per Note of U.S. \$100,000.

The Sumitomo Bank, Limited
Agent Bank

TIME-LIFE OVERSEAS FINANCE CORPORATION N.V.

Notice to the holders of 10½% Notes due January 26, 1990, of Time-Life Overseas Finance Corporation N.V.

The 1983 annual financial report of Time-Life Overseas Finance Corporation N.V. and the 1983 Annual Report to Shareholders of Time Incorporated, the Guarantor of the 10½% Notes and the parent company of Time-Life Overseas Finance Corporation N.V., may be obtained at the office of Chemical Bank, 180 Strand, London, WC2, the Fiscal Agent for the 10½% Notes.

These securities having been sold this announcement appears as a matter of record only. March 1984

£100,000,000

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des Petites et Moyennes Entreprises

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Guaranteed Floating Rate Notes due 1996

Morgan Stanley International Morgan Grenfell & Co. Limited

Saudi International Bank
AL-BANK AL-SAUDI AL-ALAMI LIMITED

BankAmerica Investment Banking Group Bank of Tokyo International Limited

Banque Indosuez Banque Nationale de Paris

Barclays Bank Group Baring Brothers & Co., Limited

County Bank Limited Credit Suisse First Boston Limited

Hambros Bank Limited Hill Samuel & Co. Limited

IBJ International Limited Lehman Brothers Kuhn Loeb International, Inc.

Lloyds Bank International Limited Manufacturers Hanover Limited

Mitsubishi Finance International Limited Samuel Montagu & Co. Limited

Nomura International Limited Orion Royal Bank Limited

REUTERS

Abridged particulars

Application has been made to the Council of The Stock Exchange for the B Ordinary (Limited Voting) Shares of Reuters Holdings PLC, issued and now being issued, to be admitted to the Official List.

Reuters Holdings PLC

Offer for Sale by Tender

by

S. G. Warburg & Co. Ltd. and N. M. Rothschild & Sons Limited

of 57,000,000 B Ordinary (Limited Voting) Shares ("B Shares") of 10p each (or such other number as may be determined as mentioned in the prospectus) at a Minimum Tender Price of 180p per share.

S. G. Warburg & Co. Ltd. and N. M. Rothschild & Sons Limited have arranged the underwriting of this Offer for Sale in respect of 57,000,000 B Shares.

The underwriters include:—

Lazard Brothers & Co., Limited **Robert Fleming & Co. Limited**
Nomura International Limited **Potter Partners** **Swiss Bank Corporation International Limited**

Arrangements for a simultaneous offering in the United States of America are being made by:—

Merrill Lynch Capital Markets **Morgan Stanley & Co. Incorporated**

Authorised	Share Capital	Issued and now being issued fully paid
£		£
10,500,000	in A Ordinary Shares of 10p each	10,005,168
42,000,000	in B Ordinary (Limited Voting) Shares of 10p each	29,340,419
1	in one Founders Share of £1	1
52,500,001		39,345,588

Applications for the B Shares now being offered for sale must be received by 5.00 p.m. on Friday, 1st June, 1984 except that applications despatched by post and received not later than 10.00 a.m. on Saturday, 2nd June, 1984 will be treated as valid.

Copies of the Prospectus with Application Forms, on the terms of which alone applications may be made, may be obtained from:—

S. G. Warburg & Co. Ltd.
33 King William Street
London EC4R 9AS

Cazenova & Co
12 Tokenhouse Yard
London EC2R 7AN

Bank of Scotland
3rd Floor
55 Old Broad Street
London EC2P 2HL

N. M. Rothschild & Sons Limited
New Court
St. Swithin's Lane
London EC4 4DU

Hoare Govett Limited
Heron House
319/325 High Holborn
London WC1V 7PB

Barclays Bank PLC
New Issues Department
P.O. Box 123
Fleetway House
25 Farringdon Street
London EC4A 4HD

and at the following branches of **Bank of Scotland**:—

53 Castle Street Aberdeen AB9 8AJ	11-19 Reform Street Dundee DD1 9AU	Registrar Department 26A York Place Edinburgh EH1 3EY	110 St. Vincent Street Glasgow G2 5EJ
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and at the following branches of **Barclays Bank PLC**:—

8 Angel Court Throgmorton Street London EC2R 7HT	P.O. Box 34 63 Colmore Row Birmingham B3 2BY	P.O. Box 207 40 Corn Street Bristol BS99 7AJ	P.O. Box 69 121 Queen Street Cardiff CF1 1SQ
37 Park Row Leeds LS1 1HS	P.O. Box No. 357 17 York Street Manchester M60 2AU	P.O. Box No. 1DA Collingwood Street Newcastle-upon-Tyne NE99 1DA	P.O. Box 2 30 High Street Southampton SO9 7AB

29th May, 1984

UK COMPANY NEWS

Simon Eng. sees further progress

PROVIDED THERE are no undue delays on large contracts, 1984 should produce a further improvement in the trading performance of Simon Engineering...

11% rise for Radio Clyde in first half

In its first announcement of results since coming to the USM last February, Radio Clyde, the Glasgow-based commercial radio station, has reported a 10.9 per cent increase in taxable profits...

Coats Patons' world sales 10% ahead at four months

AT THE AGM of Coats Patons, Mr W. D. Coats, the chairman, said that world sales for the first four months of the year were 10 per cent above those for 1983...

RECENT ISSUES

Table with columns: Issue, Price, Date, Stock, Closing Price, % Change. Lists various financial issues and their market performance.

Table with columns: Issue, Price, Date, Stock, Closing Price, % Change. Lists fixed interest stocks and their market performance.

Table with columns: Issue, Price, Date, Stock, Closing Price, % Change. Lists 'RIGHTS' offers and their market performance.

Table with columns: Issue, Price, Date, Stock, Closing Price, % Change. Lists bids and deals in brief.

COMPANY NEWS IN BRIEF

Revenue before tax of Nineteen Twenty-Eight Investment Trust for the year to March 31, 1984 advanced from £3.16m to £3.33m. After tax of £1.26m (£1.2m) the net balance emerged at £2.07m (£1.96m) for earnings of 5.67p (5.36p) per 25p share...

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held by the board for the consideration of dividends. Official indications are not available as to whether the dividends are to be paid in full or in part...

BASE LENDING RATES

Table listing base lending rates for various banks and financial institutions, including A.B.N. Bank, Allied Irish Bank, and others.

Advertisement for Amer Group Ltd, featuring a logo and text about the company's financial performance and share information.

Advertisement for Barclays Bank, listing prime account interest rates and other financial services.

Advertisement for AEGON Insurance Group, detailing the company's services and contact information.

Advertisement for S.G. Warburg & Co. Ltd, providing information about share capital, authorized shares, and company address.

Advertisement for AEGON, detailing the company's financial performance, dividend information, and contact details.

Advertisement for Cookson Group, providing information about the company's operations and share information.

Advertisement for PENDING DIVIDENDS, listing dates and amounts for various companies.

Table titled 'FINANCIAL TIMES STOCK INDICES' showing various stock indices and their values.

Advertisement for S.G. Warburg & Co. Ltd, providing information about the company's services and contact details.

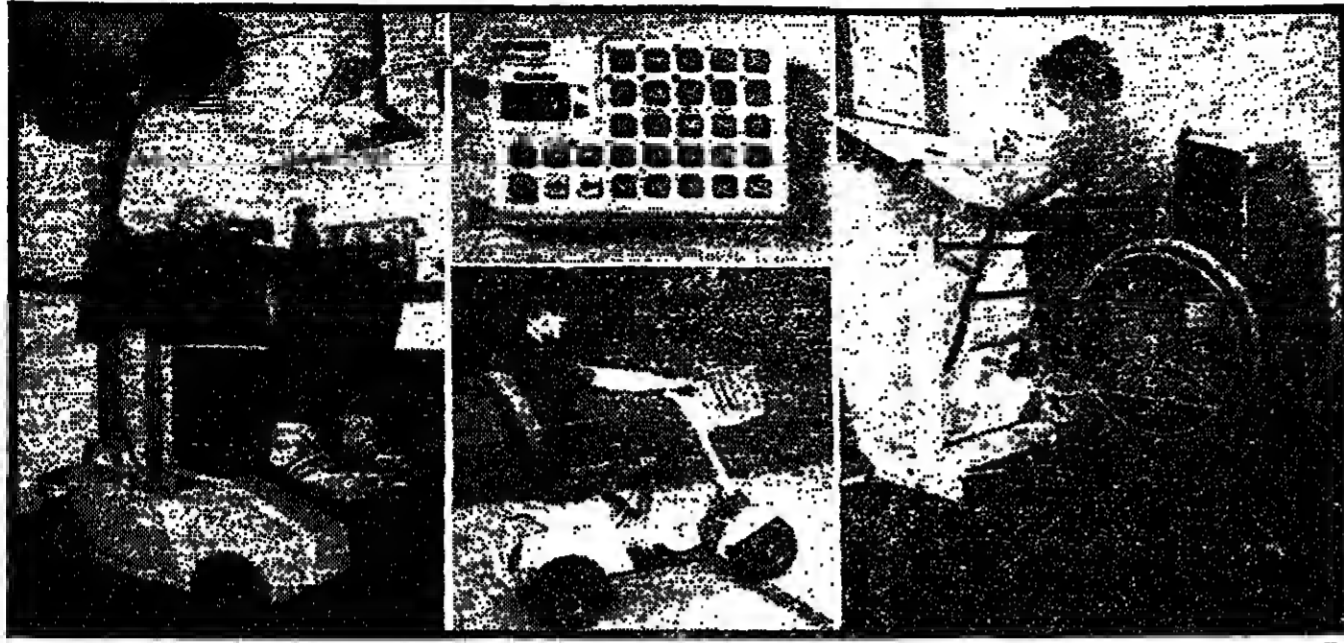
TECHNOLOGY

EDITED BY ALAN CAINE

EQUIPMENT DESIGN CONTRIBUTES TO BETTER WORKING LIVES

Hardware for the handicapped

BY HENRY MARA



A combination of mechanical and computer techniques can provide answers to the problems of helping the disabled live full and useful lives. Top centre: the Canon UK Communicator and below it the Downs Surgical "Rova" which climbs three inch kerbs. Freestanding and built-in powered jacks help raise the disabled to the heights

TWO YEARS ago, the UK Department of Trade and Industry initiated a bold and humane experiment. It bought computerised equipment for 50 handicapped people, set them up in "home working units" and found them employers. The payoff has been, all the feedback suggests, satisfied employers, fulfilled workers—and the development of a range

of hardware and software for the handicapped with substantial export potential. The DTI showed off its achievements earlier this month at an exhibition "The Computer and Technology" in Brighton, which set out many of the new devices designed to help the disabled make a worthwhile working contribution. Typical of the innovations on show was "Beet Control" from EMI Systems of Gloucester, a device which can be linked to a BBC computer to enable someone who cannot operate the manual keyboard to control the

machine either with the pressure of their hand or head on a switch—even the flicker of their eyelids can be used. Visual aids for the deaf and dumb are becoming more sophisticated. C Speech from SCI Instruments of Letchworth transforms the speech of a deaf person into patterns on a computer videodisc; matching the sound to a pre-set pattern can produce clearer speech. Canon UK was showing its Communicator, a pocket calculator sized gadget which extracts messages on paper tape and which can be used by both deaf and dumb; for the poor sighted John Heathcote of Tiverton in Devon has a closed circuit television system which projects and magnifies words and figures. Electric scooters appeal to handicapped people who would otherwise have to use wheelchairs and they are also popular with asthmatics and sufferers from arthritis and heart disease. These 4 mph machines can be kept at the office and ridden along shopping concourses. They include the Downs Surgical "Rova" (£895) which climbs 3 inch kerbs and the Bec

Budget Scooter (£495) which does not. Lenin and Trotsky are said to have bicycled their way around the Kremlin. Rova say one business client of theirs scooters around his company. "Car Chair" of Hailsham Surrey showed a device that winches your wheelchair into a car. "Chair Up" of Wimborne, Dorset, market through Carters of Westbury, Wilts, a gadget to raise a wheelchair on to a roof rack. If a handicapped person is offered a job in a building with no lift, Stannah lifts of Andover, Hants, offer a mono-rail with seat, or a lift which takes a wheelchair with a person remaining in the chair. (You can negotiate with the Manpower Services Commission for a grant to pay for it.) Reaching a high shelf from a wheelchair is solved by Tunkers of West Germany who have a built in hydraulic lift device in their Butler Chair. The chair is comfortable, orthopaedically designed, and self propelled, with a smart executive look (£3,500). "Chair Up" of Wimborne, Dorset, showed a self propelled

executive style chair with the same capacity but using an electrically driven jack (£1,778). "Chair Up" also make for Carters of Westbury, Wiltshire, a device which lifts a whole wheelchair so that the user can reach the top drawer of a filing cabinet. But in general, wheelchair design is very backward in the UK. Not only the archaic chairs issued free by the DHSS, but

also those abnorn by the most respected manufacturers in the UK. The orthopaedist and designer of a wide variety of seating, Dr Bernard Watkin, has described these wheelchairs as "an anatomical insult." He said: "We need a marriage of the talents of people like Flight Equipment and Engineering of Chesham who are doing revolutionary things in the aircraft industry, with someone who understands the human body. "Be sure to include actual wheelchair users and you will have the kind of think tank that will come up with the answers we need."

in other parts of the world, the word videotex is being confusingly applied to denote videotext; teletext remains the same; but in consequence no other word is used to embrace all systems. As further clarification, names such as Homelink and Lawtel describe Prestel services offered by so-called information providers (IPs) — who range from building societies to newspaper groups. It may be easy to guess that Lawtel offers the legal profession access to a wide variety of law reports, case information, and so on; Homelink with some semantic sense provides Prestel consumers with direct access to a range of financial services — including the ability to actually transfer money. Sympatico is, much less obviously, a noticeboard service with sections such as Personal, Heartsearch and Interests (but it is not clear exactly where the line would be drawn at accepting Heartsearch messages from those with very special interests).

Despite the confusion caused by the terminology and in spite of such cynicism two or three years ago, videotex in Britain is alive and well — and

Videotex—what's in a name

IF VIDEO, cable TV, satellites and DBS seem just to anyone trying to orientate themselves, videotex must seem like Bedlam. It may be simple enough for the cognoscenti — such as the 42,000 now connected to Prestel in the UK — but for the other 50m-odd, even the word videotex is full of mystery; as indeed it might be because it even has a different meaning in North America.

There are plenty of other names to add to the communications barrier, such as Homelink, Micronet 800, Club 403, Farmlink, Lawtel and — perhaps for those in desperate need of help — Sympatico.

To set the terminology a little sorted out for readers who have reached this far, videotex (in Britain) is the generic word to cover television text systems whether they are transmitted as part of the broadcast service (viz teletext) or relayed, by wire — effectively connecting the viewer to a distant computer (viz viewdata — of which Prestel is the publicly offered service provided by British Telecom via telephone lines, but there are many other private systems too).

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even the more specialised Prestel service, easily dismissed as of interest only to business users, now has 37 per cent of its terminals in the home. In the words of the Parliamentary Under Secretary of State, Mr John Butcher, who has been a key figure in the story so far — "those who thought it would never begin to take off in the consumer market are being proved wrong."

Of course, 37 per cent of 42,000 is insignificant, but the growing confidence of this industry is evident — helped by the relative success of teletext, which again the cynics dismissed. There are now 17a households with teletext sets in UK, representing a potential viewing population of almost 6m people. That is a far cry from the 50,000 consumer penetration in 1980.

Another myth has been demolished too by other recent statistics. The average teletext viewer watches all that electronic print for 15 minutes per day, two hours per week — and a typical teletext set is not the white elephant some predicted.

Video & Film

BY JOHN CHITTOCK

it would become. Prestel is no less impressive, with 15.2m frame accesses per month (that is, 362 per terminal).

There is other good news about videotex which reverses a view of two or three years ago. Both Prestel and teletext were trail-blazing British developments, putting us well ahead of the rest of the world. But inevitably came the competition, especially from France with Teletel and Antiope (viewdata and teletext respectively) and Canada and Teledon. As is so often the case, it began to look as if the British would be squeezed out in world markets, particularly because the rival systems offered potentially better graphics.

Nonetheless, the British developments have recovered from early challenges and about 98 per cent of all world videotex installations now follow the British standard (of which about one half are in the UK anyway).

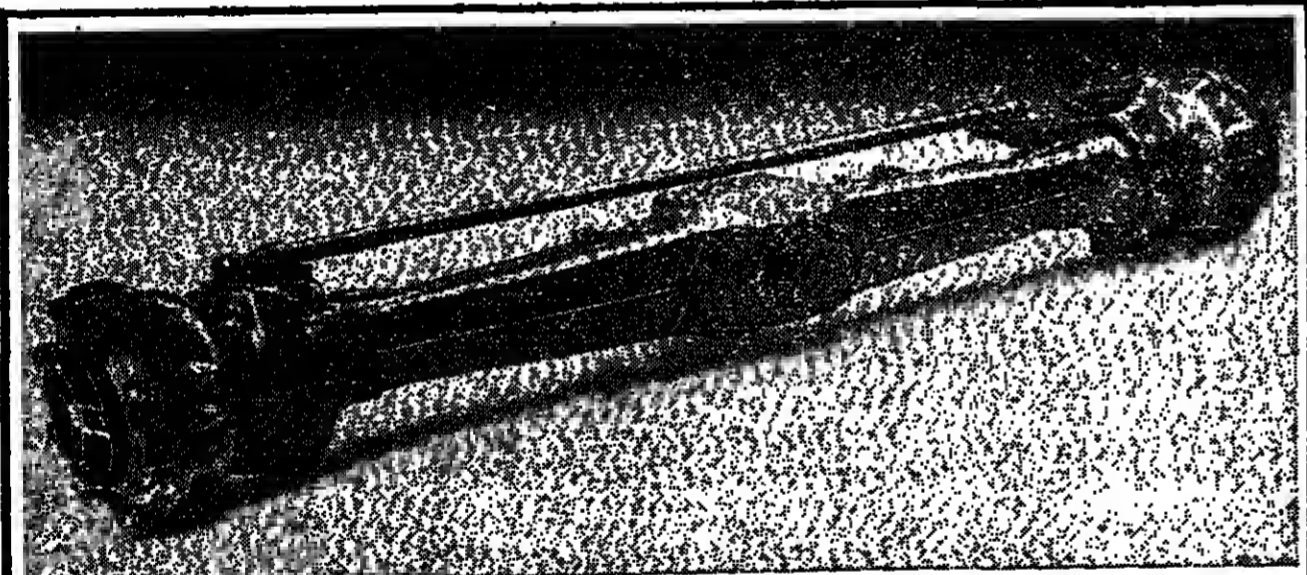
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Software Translation by computer

COMPUTER-AIDED translation in six directions between English and French, German, Spanish or Portuguese is offered by some software called Microcat from The Professional Connection, Fareham, Hampshire.

Developed by Weidner Communications Corporation in the U.S., the program runs on the IBM PC XT personal computer. The human translator does not vanish however. The source text is entered via the keyboard, together with any words not already in the program's core directory. Once Microcat has finished producing its raw translation at up to 2,000 words per hour, the human translator edits and polishes the text. It is claimed that the productivity of the human translator is increased from an average of about 1,200 words a day to over 1,000 words an hour. More on 0329 230870.

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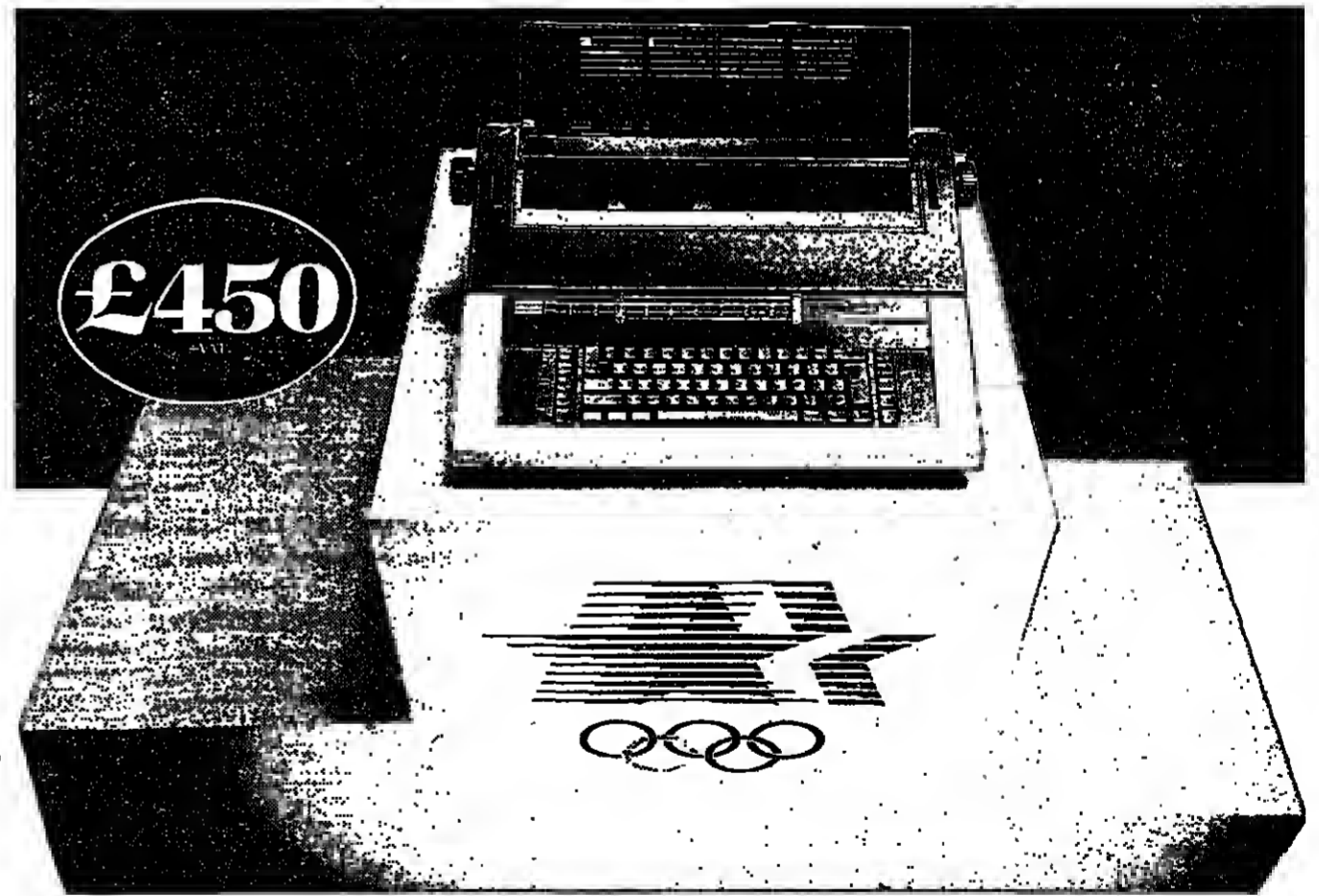
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Closing prices May 25

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Main table containing stock market data with columns for 12 Month High/Low, Stock, Div. Yld., P/E, 100s High/Low, and various price points.

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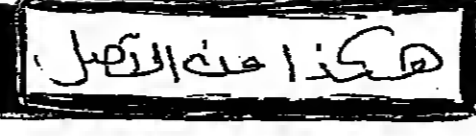
New York • London • Paris • Geneva • Zurich • Hong Kong • Tokyo

Continued on Page 23

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AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices May 25



Main table of American stock exchange closing prices, organized by sector (A through Z) and including columns for stock name, price, and change.

Continued on Page 24

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Main table of New York stock exchange closing prices, organized by sector (A through Z) and including columns for stock name, price, and change.

Continued on Page 24

Notes and footnotes regarding the data, including a disclaimer: 'Sales figures are unofficial. Yearly high and low reflect the previous 52 weeks plus the current week but not the latest trading day...' and a legend for dividend types (a, b, c, d, e, f, g, h, i, j, k, l, m, n, o, p, q, r, s, t, u, v, w, x, y, z).

WORLD STOCK MARKETS

Nasdaq national market, closing prices May 25 CANADA

OVER-THE-COUNTER

Table of stock prices for various companies, including columns for Stock, Sales, High, Low, Last, and Change. Includes sub-sections for A-Z and O-Z.

TORONTO Closing prices May 25

Table of Toronto stock market closing prices for various companies, including columns for Stock, High, Low, Last, and Change.

MONTREAL Closing prices May 25

Table of Montreal stock market closing prices for various companies, including columns for Stock, High, Low, Last, and Change.

AUSTRIA, GERMANY, NORWAY, AUSTRALIA (continued), JAPAN (continued)

Table of international stock market closing prices for Austria, Germany, Norway, Australia, and Japan.

FRANCE, DENMARK, ITALY, SWITZERLAND, HONG KONG

Table of international stock market closing prices for France, Denmark, Italy, Switzerland, and Hong Kong.

AMERICAN STOCK EXCHANGE CLOSING PRICES

Table of American stock exchange closing prices for various companies, including columns for High, Low, Last, and Change.

NETHERLANDS

Table of Netherlands stock market closing prices for various companies.

NEW YORK CLOSING PRICES

Table of New York stock market closing prices for various companies.

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WORLD STOCK MARKETS

EUROPE

Becalmed in absence of a lead

MANY European centres found themselves becalmed yesterday in the absence of a lead either from London or Wall Street.

Frankfurt was further troubled by the continuing metalworkers' dispute which saw trade unionists demonstrating in Bonn in support of their demands for a 35-hour working week and unemployment compensation for workers locked out.

Shares ended mixed, though steady after uneventful and trendless trading, and the Commerzbank index slipped 1.9 to 1,005.5 in a market dominated by professional traders.

Motor shares were mixed with Daimler-Benz managing a 20 pig rise to DM

Wall Street was closed yesterday to mark Memorial Day while London was closed for the Spring Bank holiday.

588, but BMW fell DM 2.40 to DM 382.10 and Volkswagen DM 1.80 to DM 189.70. Bonds held steady in listless trading and the Bundesbank sold a nominal DM 7.7m of paper to balance the market after Friday's purchases which totalled DM 3.4m.

A reluctance to adopt new positions left Paris mixed to slightly lower. The Stock Exchange Association was unable to provide an accurate trend indicator because of a computer failure.

One feature was, however, provided by Creusot Loire, the engineering group which has filed for protection from its creditors. It fell FFr 5.20 to FFr 25.

Brussels turned in a sluggish performance and the SE index fell 1.21 to 151.81.

In the retail sector, Delhaize was unchanged at BF 4,830 as it reported that domestic sales rose 8 per cent in the first four months of 1984.

A reversal of last week's downward trend was seen in Amsterdam where the ANP-CBS index added 2.3 to 157.1.

Alko led the gains, rising FI 4.70 to FI 89.30 while Hoogovens added FI 2.60 to FI 52.10.

Bonds were flat amid a total lack of trading interest.

Zurich also turned marginally higher after last week's declines. Credit Suisse paced the banking sector with a SwFr 15 rise to SwFr 2,215 while Swiss Bank Corporation rose SwFr 5 to SwFr 340 and Union Bank SwFr 10 to SwFr 3,400.

Milan turned lower amid the deepening crisis in the Gulf. A lower trend was also seen in Stockholm in thin trading.

HONG KONG

AN INCREASE in local interest rates was shrugged off in Hong Kong and the stock market rebounded, through in very thin trading.

The Hang Seng index rose 16.52 to 918.31, after Friday's 20.21 fall, in turnover that was down to HK\$96.83 from the previous session's HK\$284.7m.

Swire Pacific "A" added 40 cents to HK\$15.90. The conglomerate forecast 1984 net profit up at least 14.9 per cent to HK\$1bn in a document detailing its HK\$1.24bn cash and shares offer for the 27.5 per cent stake in Swire Properties that it does not already own.

SINGAPORE

EARLY strength, derived from the completion of the United Malays National Organisation party elections, was not sustained in Singapore.

A S\$1.10 rise by Esso to S\$15.60 was largely responsible for a 5.37 advance in the Straits Times industrial index to 956.12, but falling issues outpaced rises by nearly three to one in turnover that eased to 7m shares from Friday's 9.7m.

AUSTRALIA

HIGHER pre-weekend hullion prices gave gold shares a boost in Sydney, while mining and oil shares also moved ahead.

The All Ordinaries index reversed last week's slide, adding 3 to 678.0.

Gains were recorded among banks, which were hard hit last week in the fallout from nervousness over their U.S. counterparts.

SOUTH AFRICA

A CONTINUATION of Friday's sharp gains in gold shares was seen in Johannesburg in mainly local trading, due to the closure of the London and U.S. markets.

Randfontein added R5 to R195 while in other sectors, Anglo-American advanced 30 cents to R22.55, De Beers 6 cents to R9.30 and Impala Platinum 10 cents to R19.90.

Industrials, however, were quietly mixed.

CANADA

Gains among the oils, financial services and metals sectors led Toronto higher but trading volume was low, reflecting the market holidays in the U.S. and U.K. Gold issues, which had provided much of the impetus for a market advance on Friday, eased slightly.

Montreal was also ahead with advances recorded by industrials, utilities and banks.

TOKYO

Sidelines provide safe haven

A WAIT-AND-SEE mood dominated the Tokyo stock market yesterday and prices took a moderate downswing in the thinnest trading seen this year, writes Shigeo Nishitani of Jiji Press.

The Nikkei Dow market average fell 11.32 to 10,116.04. Volume shrank to 135.4m shares, compared with the year's previous low of 141.13m, recorded on February 20. Losses outnumbered gains 340 to 292, with 138 issues unchanged.

Investors held to the sidelines, wary of rumored financial difficulties of major U.S. commercial banks and the tense Middle East situation. Margin debts running at record levels also dampened activity, as did the closure of the London and New York markets for public holidays. Investors were awaiting Tuesday's market moves in New York before taking new action.

On the trading floor, Aoki Construction topped Y1,000 at one point, however, boosted by investors' hopes for the company's gold development in Brazil, but closed the day at Y995, up Y15. Marubeni, a major trading house engaged in gold mine development in Alaska, rose Y3 to Y380.

Blue chips made a steady start but later eased with Hitachi posting a small gain of Y2 to Y840. Matsushita Electric Industrial shed Y20 to Y1,730 and Kyocera Y100 to Y5,650. However, Canon advanced Y30 to Y1,210.

Dainippon Pharmaceutical, which moved ex-rights, finished at Y4,020, well above the theoretical price. Conversely, Mochida Pharmaceutical lost Y140 to Y5,260.

Pacific Metals was the most active stock with 6.37m shares changing hands, rising Y19 to Y235, an indication that a recovery in the market for stainless steel will mean an improved performance for the business year ending in November.

Banks came under small-lot selling pressure, with Sumitomo Bank dropping Y35 to Y965 - below Y1,000 for the first time in about 2½ months.

A hesitant mood was also dominant on the bond market with the yield on the benchmark 7.5 per cent government bond, maturing in January 1993, edging down slightly to 7.465 per cent, compared with Saturday's 7.500 per cent. But the yield on the 6.1 per cent government bond, with four to 4½ years remaining to maturity, rose to 7.450 per cent from 7.430 per cent.

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Company Notices

JOINT ANNOUNCEMENT

TRANSVAAL CONSOLIDATED LAND AND EXPLORATION COMPANY, LIMITED

WITBANK COLLIERY, LIMITED

(Both Companies incorporated in the Republic of South Africa)

Members of the Barlow Rand Group

FINANCING OF THE NEW KHUTALA AND MAJUBA COLLIERIES

In 1982, Transvaal Consolidated Land and Exploration Company, Limited ("TCL") was awarded contracts to supply coal, from resources owned by TCL, to two new power stations which will be constructed by the Electricity Supply Commission ("ESCOM") in the eastern Transvaal. Two collieries are being established for this purpose and are expected to operate for 40 years.

KHUTALA COLLIERY: The first colliery, called Khutala, is situated on the Bombardier-Cologne coal field and will supply coal to the Kestel power station. Production of coal by the mine is scheduled to commence in 1987 and rise to approximately 12.2 million tons per annum in 1992. The property is partly underlain by the No. 5 seam. Coal from this seam has been excluded from the contract with Escom and will be exported in terms of a provisional allocation of 2.3 million tons per annum granted to TCL under phase IV-A of the Government export programme.

MAJUBA COLLIERY: The second colliery, called Majuba, is situated near Amersfoort and will supply coal to the Majuba power station. Production is planned to commence in 1989 building up to 11.9 million tons per annum by 1994.

JOINT VENTURE ARRANGEMENTS

The directors of TCL and Witbank Colliery, Limited ("Witbank") have reached agreement, in principle, in regard to development and operation of the two mines by way of a joint venture. A wholly-owned subsidiary of TCL will have a 50 per cent participation in the joint venture, while the remaining 50 per cent will be taken up by a wholly-owned subsidiary of Witbank. TCL will assign the use of the Escom contracts, its export allocation and its coal rights to the joint venture.

FINANCIAL EFFECTS: The total capital expenditure to be incurred on the development of the Khutala and Majuba collieries (including the mining of coal from the No. 5 seam for export), over a period of 15 years, is estimated at R1.175 billion in current money terms. Internal resources will fund the main portion of capital expenditure, the balance being provided by borrowings which have to a large extent been arranged. In comparison with the position that would have prevailed if the joint venture arrangements had not been agreed upon, both TCL and Witbank will derive enhanced long-term benefits. Minimal financial benefits will be derived by TCL and Witbank over the next two years from the development of the collieries but improved earnings per share should be obtained by both companies thereafter.

Johannesburg
May 28, 1984

US\$100,000,000 Hydro Quebec 11 1/2% Debentures due 15th June 1992

Debentures covering US\$5,000,000 have been purchased on the market to satisfy the Purchase Fund due 15th June 1984.

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Registered Office:
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FF 100,000
Alphabetical Code: 809 901
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275 to 435.
All previously drawn bonds were paid.

Contracts & Tenders

NOTICE

GYANA SUGAR CORPORATION LIMITED

INVITATION TO TENDER FOR
FIELD AND FACTORY EQUIPMENT
AGRICULTURAL SECTOR LOAN
GYANA SUGAR CORPORATION LIMITED

Tenders are hereby invited from suppliers for provision of field and factory equipment to be acquired under the referenced loan. The Inter-American Development Bank is partially funding a rehabilitation programme under Loan Contract 80/87-GY through its Fund for Special Operations. Eligibility with respect to origin of goods and services will be determined pursuant to the rules applicable for the use of the fund.

Tenders will be invited for the following equipment which are divided into lots indicated in the contract documents:

FIELD EQUIPMENT
Lot A1 - Nine (9) Crawler Mounted Braglines
Lot A2 - Seven (7) Tractors (115-120 hp) with Creeper Gears
Lot A3 - Seven (7) Double Wheel Rotary Rippers

FACTORY EQUIPMENT
Lot B1 - Three (3) Diesel Generating Sets
Lot B2 - Six (6) Front End Wheel Loaders
Lot B3 - Five (5) Non-Tipping Haulage Lorries

Specifications contained in the Tender Document permit offers of alternate equipment which have similar characteristics and provide equal performance and quality to those stated.

Tender Documents can be obtained at the Office of Guyana Export Services Limited, 63-65 New Station Street, London WC1A 1GG or Guyana Sugar Corporation Limited, 22 Church Street, Georgetown on request and against a non-refundable payment of 100 Guyana dollars or equivalent in foreign exchange by crossed cheque in favour of The Guyana Sugar Corporation Limited.

Tenders shall be in English and delivered in plain sealed envelopes which in no way identify the tenderer to the following address:

The Chairman
Central Tender Board Committee
Guyana Rehabilitation Programme
Agriculture Sector Loan
c/o Ministry of Finance
Main and Urquhart Streets
Georgetown
Republic of Guyana
South America

Tenders close at 14.00 hours (2 pm) Guyana time on Wednesday, August 15, 1984. Tenderers or representatives may be present at the opening of the tenders.

E. S. O. Henomen
Financial Controller
Guyana Sugar Corporation Limited
22 Church Street
Georgetown, Guyana
South America

Public Notices

POLDEN FARMS LIMITED

NOTICE IS HEREBY GIVEN pursuant to Section 56 of the Companies Act 1951 that the above-named Company has approved a dividend out of surplus for the purpose of purchasing its own shares. The amount of the permissible capital for the shares in question is £252,233 and the resolution approved is that the dividend of 10% on the nominal value of the shares be paid in cash out of the reserves of the Company. The dividend is payable on 23 May 1984. The Secretary of the Company is available for inspection at the Company's registered office at 21 John Street, London WC1N 2BP, United Kingdom, at any time during the last week of the period immediately following 23 May, 1984, apply to the Court under Section 27 of the said Act for an order restraining the payment of the dividend.

RICHARD CLARK, Secretary

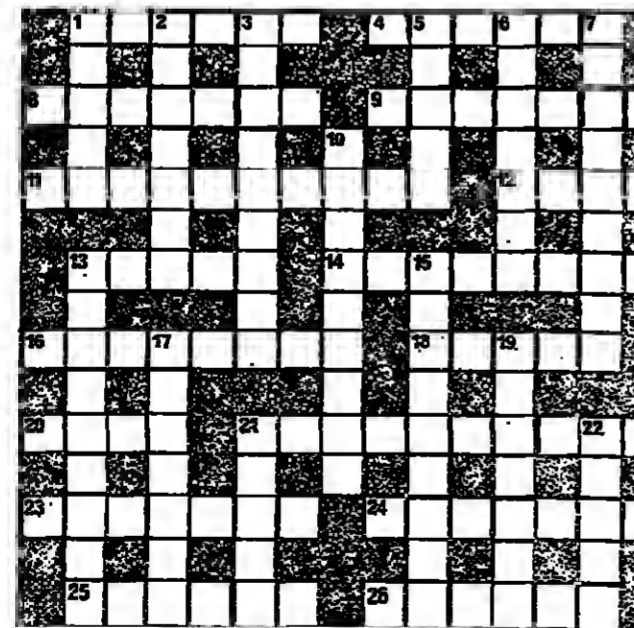
AUTHORISED UNIT TRUSTS

Table listing various unit trusts such as British Equities, British Government, British Property, and others, with columns for name, manager, and performance metrics.

Table listing insurance companies and their policies, including British Equities, British Government, and British Property.

F.T. CROSSWORD PUZZLE No. 5,427

- ACROSS
1 Put the case for proportional representation to everyone individually (6)
4 Peels off in layers (6)
8 Instruments used for burst in appendix (7)
9 The rest rubbed outside and were shot (7)
11 Comrade is disturbed by nervous reaction from American party (10)
12 Making one's fortune on Stock Exchange requires a lot of time (4)
13 Lacking the experience for this part of the course (5)
14 Wearing only waistcoat or even losing shirt if unwise (8)
16 Changing to cerise will make it exclusive (8)
18 Deposit caused by carbon deterioration (5)
20 Principal reason for smell on ship (4)
21 High morale is breaking down (10)
23 It's eccentric and not even a sphere (7)
24 The crew's technique for getting on board? (7)
25 They sit for qualifications (6)
26 The sad adjustment to bereavements (6)
DOWN
1 Liable to be lying down (5)
2 Shut up after letter spelled out the end (7)
3 Report can damage business colleague (9)
5 One stands between two different centuries: this is invigorating (10)
6 Mark which journalist might use to identify himself? (7)
7 Firm with a majority following as far back as one can go (9)
10 Step over to check out for flight (9)
12 Take note when owner goes into fuel store (9)
15 Leave outside, unwell, to



The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

Large table providing detailed information for various unit trusts, including names, managers, and performance data.

INSURANCES

Table listing various insurance policies and providers, including AA Friendly Society, Sun Alliance, and others.

Offshore & Overseas - continued

Table listing offshore and overseas investment options, including various international funds and trusts.

Money Market Trust Funds

Table listing money market trust funds and their performance metrics.

Money Market Bank Accounts

Table listing money market bank accounts and their interest rates and terms.

INSURANCE & OVERSEAS MANAGED FUNDS

Table listing various insurance and managed funds, including Barclays Life Ass., Black Horse Life Ass. Co. Ltd., British National Life Assurance Co. Ltd., and others, with columns for fund names and values.

Table listing various insurance and managed funds, including Lloyds Life Assurance, Property Growth Assur. Co. Ltd., Standard Life Assurance Company, and others, with columns for fund names and values.

Table listing various insurance and managed funds, including Bank of America International S.A., Barclays Unicorn International, BNP Paribas, and others, with columns for fund names and values.

Table listing various insurance and managed funds, including Manover Pacific Fund Mgmt. Ltd., Richmond Life Ass. Ltd., and others, with columns for fund names and values.

OFFSHORE AND OVERSEAS

Table listing offshore and overseas managed funds, including Anglo Investment, Anglo Pacific, and others, with columns for fund names and values.

NOTES

Notes section providing additional information and disclaimers regarding the fund data presented in the tables.



FT LONDON SHARE INFORMATION SERVICE

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Includes sections for AMERICANS and BRITISH FUNDS.

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Includes section for Five to Fifteen Years.

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Includes section for Over Fifteen Year.

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Includes section for Undated.

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Includes section for Index-Linked.

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Includes section for INT. BANK AND OSEAS GOVT STERLING ISSUES.

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Includes section for CORPORATION LOANS.

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Includes section for COMMONWEALTH AND AFRICAN LOANS.

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Includes section for LOANS.

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Includes section for Public Board and Ind. Financial.

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Includes section for FOREIGN BONDS & RAILS.

AMERICANS

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists various American stocks.

CANADIANS

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists various Canadian stocks.

BANKS, HP & LEASING

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists bank and leasing stocks.

INT. BANK AND OSEAS GOVT STERLING ISSUES

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists international bank and overseas government issues.

CORPORATION LOANS

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists corporation loans.

COMMONWEALTH AND AFRICAN LOANS

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists commonwealth and African loans.

LOANS

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists various loans.

Public Board and Ind. Financial

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists public board and industrial financial.

FOREIGN BONDS & RAILS

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists foreign bonds and rails.

BEERS, WINES—Cont.

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists beer and wine stocks.

BUILDING INDUSTRY, TIMBER AND ROADS

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists building industry, timber, and roads stocks.

DRAPERY & STORES—Cont.

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists drapery and stores stocks.

ELECTRICALS

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists electrical stocks.

CHEMICALS, PLASTICS

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists chemical and plastic stocks.

DRAPERY AND STORES

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists drapery and stores stocks.

BEERS, WINES & SPIRITS

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists beer, wine, and spirit stocks.

ENGINEERING

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists engineering stocks.

DRAPERY AND STORES

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists drapery and stores stocks.

ENGINEERING

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists engineering stocks.

HOTELS AND CATERERS

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists hotel and caterer stocks.

DRAPERY & STORES—Cont.

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists drapery and stores stocks.

ENGINEERING—Continued

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HOTELS—Continued

Table with columns: Stock, Price, Last, Bid, Offer, Yld. Lists hotel stocks.

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INDUSTRIALS—Continued

Table of industrial stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

LEISURE—Continued

Table of leisure stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

PROPERTY—Continued

Table of property stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

INVESTMENT TRUSTS—Cont.

Table of investment trusts including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

OIL AND GAS—Continued

Table of oil and gas stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

NOMURA INTERNATIONAL LIMITED NEW-ERA INVESTMENT AND UNDERWRITING OFFICES WORLDWIDE 3 Greenchurch Street, LEICESTER OAD Telephone (011) 283 8811

MINES—Continued

Table of mining stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

MOTORS, AIRCRAFT TRADES

Table of motor and aircraft trade stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

Commercial Vehicles

Table of commercial vehicle stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

SHIPPING

Table of shipping stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

SHOES AND LEATHER

Table of shoes and leather stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

OVERSEAS TRADERS

Table of overseas trader stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

Miscellaneous

Table of miscellaneous stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

PAPER, PRINTING ADVERTISING

Table of paper, printing, and advertising stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

NEWSPAPERS, PUBLISHERS

Table of newspaper and publisher stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

SOUTH AFRICANS

Table of South African stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

TEXTILES

Table of textile stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

PLANTATIONS

Table of plantation stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

NOTES

Notes section containing various financial notices and announcements.

INSURANCES

Table of insurance stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

PROPERTY

Table of property stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

TOBACCO

Table of tobacco stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

TRUSTS, FINANCE, LAND

Table of trusts, finance, and land stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

FINANCE, LAND, etc

Table of finance, land, and other stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

Central Rand

Table of Central Rand stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

LEISURE

Table of leisure stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

PROPERTY

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TRUSTS, FINANCE, LAND

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OIL AND GAS

Table of oil and gas stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

Far West Rand

Table of Far West Rand stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

Regional & Irish Stocks

Table of regional and Irish stocks including companies like May-Maclean, May-Maclean, and May-Maclean with columns for stock, price, and volume.

Options - 3-month call rates table with columns for stock, price, and volume.

Recent Issues and Rights Page 16. This service is available to every company that is in the Stock Exchange throughout the United Kingdom for a fee of £700 per annum for each security.

FINANCIAL TIMES SURVEY

WORLD BANKING

Part two: THE BUSINESS OF BANKING

THE WORLD debt crisis may have dominated the headlines over the past couple of years. But many bankers might argue that their toughest battles lie a lot closer to home than the cities of Latin America.

The near failure of Continental Illinois, the collapse of Schroeder Muenchmeyer Hengst, even the heavy losses that Midland Bank took through its California subsidiary, Crocker National Bank—each in its way was more costly than the blackest prediction about LDC debt.

Add to that the bracing winds of financial deregulation that are sweeping through many countries and it is easy to see why the banking community would feel it was living through interesting times, even if it had never heard of Brazil.

Many of the strains, of course, have resulted from one of the worst recessions since 1945. As so often happens, banks tend to be hit hardest just when the recovery comes, because that is when their clients' finances are most tightly stretched.

Even though the U.S. economy began improving last year, that was precisely when things were toughest. A total of 45 banks failed in the U.S. in 1983—the highest number since the Great Depression—and another 25 had gone by mid-May this year.

In the UK, where the recovery also got under way last year, banks had to make their largest-ever provisions against bad debts. So did banks in many other countries.

Small wonder that the number of Triple A banks left in the world has shrunk to less than a dozen and that bank supervisors have been forced to take a more active role, pressing banks to beef up their standards and be more tight-fisted about dividends. Balance sheets are now becoming stronger for the first time since the late 1970s.

The worst shocks were fortunately isolated ones which exposed bad management and the nervousness of the financial markets rather than fatal flaws in the system. Continental

By **David Lascelles**
Banking Correspondent

Illinois was probably the most worrying because the rumours about its demise could so easily have become self-fulfilling. They threatened not just the U.S. banking industry but the Euromarkets in which the bank was funding itself heavily, and through that the banks in other countries. It was the classic and much-feared chain reaction.

The Crocker losses, caused by unwise real estate loan-making, never threatened the system in the same way. But they provided a cautionary tale for other banks seeking to follow Midland into the U.S. market. Whether it will put them off is another matter: a U.S. foothold is still seen as a "must" by most large banks, but Midland taught them that keeping tight control is vital.

Like Herstatt, the SMH affair belied West Germany's carefully tended reputation for running a rock-solid banking system. But at least this time it spurred much-needed changes in banking law which should

make it harder for banks to build up massive exposures to tottering industrial giants by roundabout means.

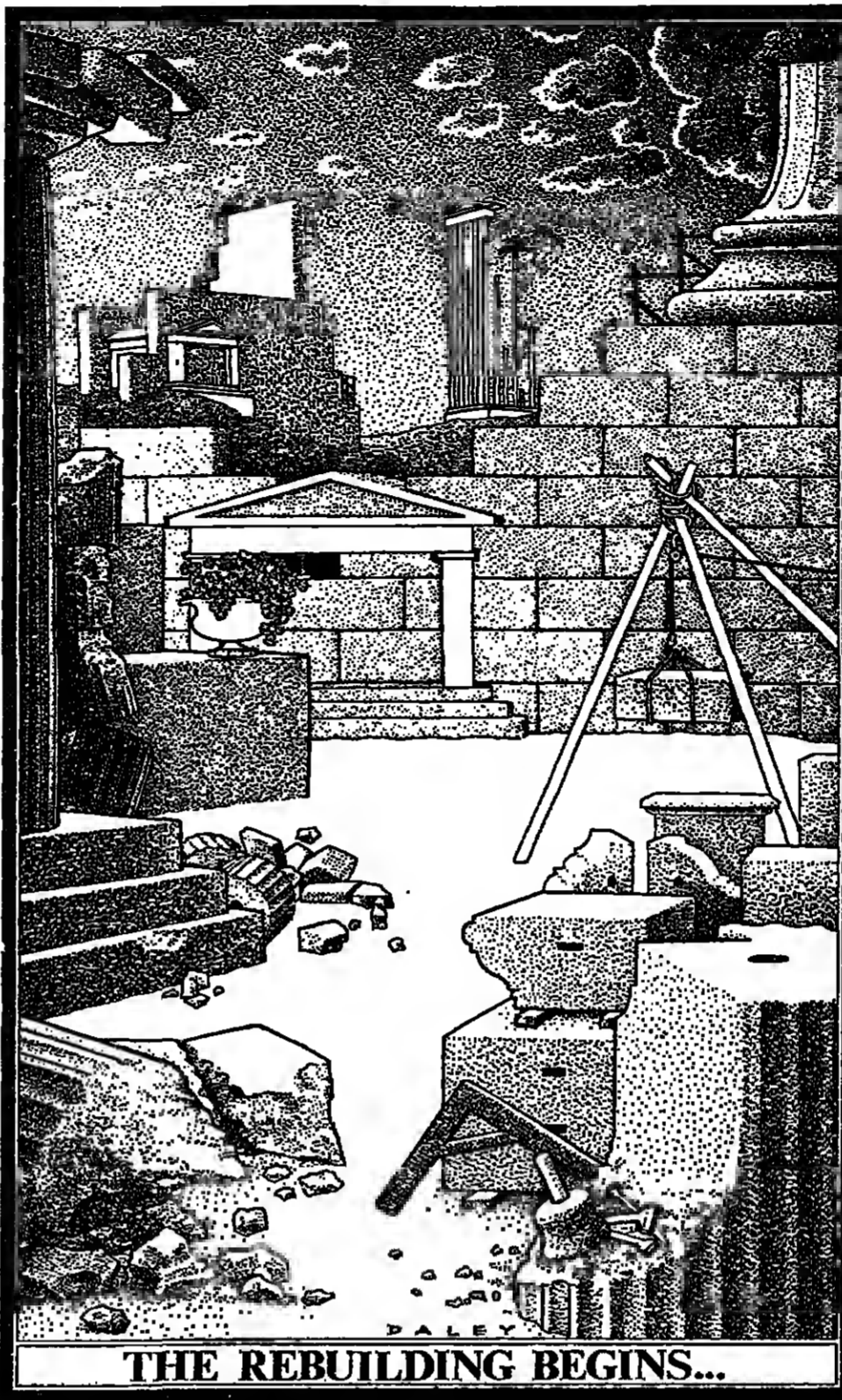
Given all these traumas, it may seem surprising that bank profits were reasonably good last year, with double-digit increases—well above inflationary recorded by most of the major international banks.

Some people have argued that this indicates that banks were not setting aside enough reserves to cover their bad debts, not "suffering" enough, particularly in the U.S., where banks have preferred to treat their Third World problem loans as "non-accruing" (not yielding interest) rather than as assets to be written down.

Who is to say what represents adequate bad debt reserves? Supervisors in several countries now tell their banks how much they should write off—another sign of the more involved role they play. They do in the U.S., too, but—as yet—only for minor problem countries. There is understandable reluctance to take this process too far, however. Banks do not need to be "nannied," or, if so, they might do better to stay outside the international loan business.

But there is more to the profits picture than that. Banks

CONTINUED ON PAGE 3



THE REBUILDING BEGINS...

Purged of some of their excesses, better capitalised and set in a more benign climate, the world's banks have reason now to be more optimistic after the stormy periods of recent years. Already post-crisis recovery patterns are beginning to emerge.

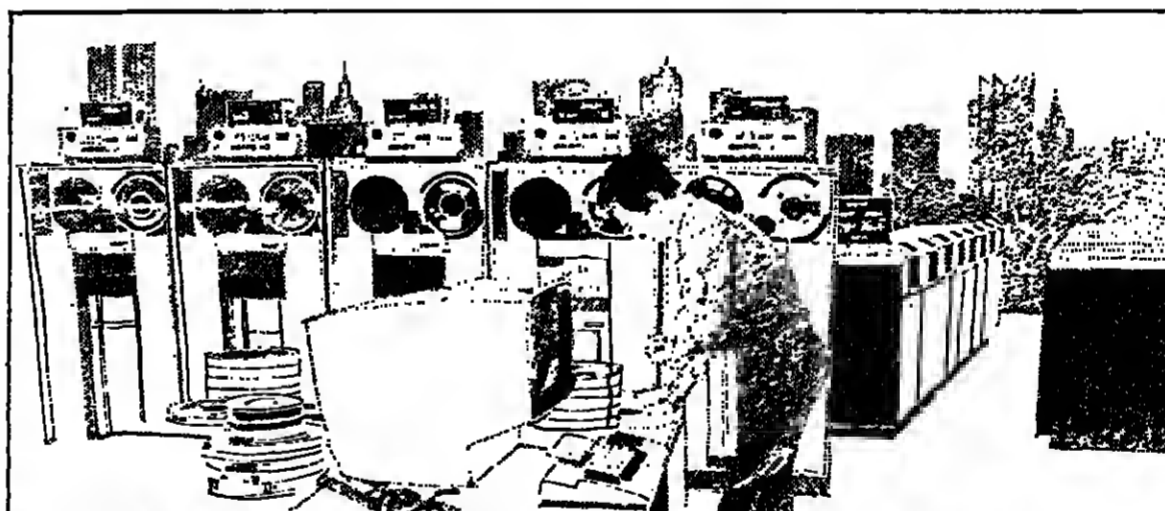
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Other countries in Europe and North America were featured in Part One of this survey.	

Part One of this Survey appeared on Monday, May 21



It's a direct S.W.I.F.T. link for account inquiries and adjustments. Through this direct S.W.I.F.T. link, your requests are handled quickly and efficiently. If additional assistance is needed, our representatives are on-the-spot in London to give you personal attention.

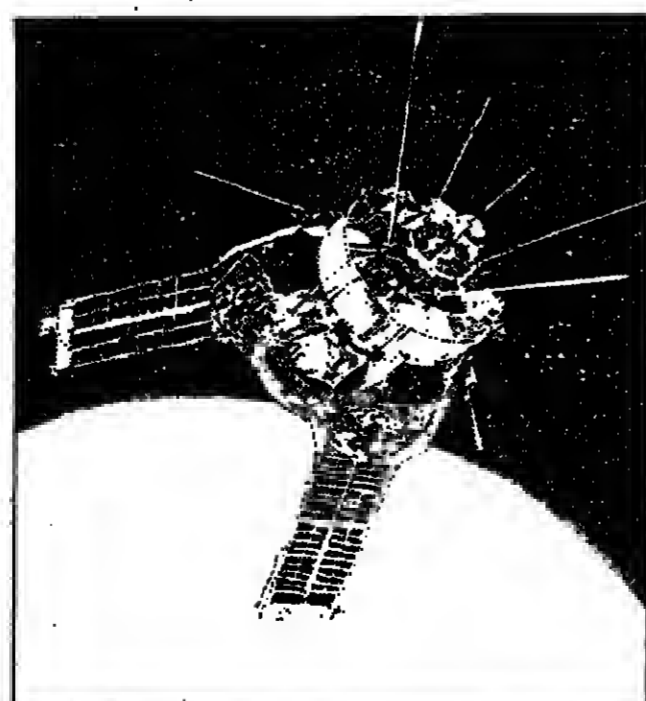


It's automated clearing in New York. When you send messages to us electronically, your U.S. dollar payments are processed by Manufacturers Hanover and sent to the U.S. payments system with no manual intervention, virtually error-free.



It's timely cash flow information. Our on-line reporting capability ensures that you have up-to-the-minute transaction details on your account with us in New York.

THE FINANCIAL SOURCESM



It's the most advanced telecommunications capabilities available today. We offer state-of-the-art S.W.I.F.T. capabilities, in addition to our sophisticated private telecommunications system, ensuring utmost speed and accuracy in transaction processing, account inquiries and information retrieval.

It's Manufacturers Hanover, clearing bank to the world. Quality. Loyalty. Consistency. These three attributes make Manufacturers Hanover a dedicated banking partner. We are committed to providing you with high quality banking services and products—in a timely, accurate way. But more important is the way we provide these services. We strive, always, for a consistency that you can count on. And a loyalty you will find exceedingly difficult to match.

MANUFACTURERS HANOVER International Banking Group

New York Headquarters: 270 Park Avenue, New York, N.Y. 10017, USA
In London, contact: Charles C. Stipp, Vice President and Senior Representative—Correspondent Banking; or Denis A. Pearce, Vice President
7 Princes Street, EC2P 2LR, London • Tel: 01-600-8666 • Telex: 886 371

WORLD BANKING 14

The unsecret of our success



Friendly and efficient service in a dynamic economy is the winning combination that assured our growth into a city bank of Japan. And now we're developing into an international financial complex. Perhaps more than any other Japanese bank. Saitama offers its customers the full benefits of its vigor and vision. The vigor that has made it one of Japan's fastest growing major banks. And the vision of a bank that never forgets people are people.

The Japanese bank that helps you grow
SAITAMA BANK
 HEAD OFFICE: TOKIWA, URAWA, SAITAMA PREF., JAPAN.

TOKYO MAIN OFFICE: INTERNATIONAL BANKING HEADQUARTERS
 1-3-1, Kyobashi, Chuo-ku, Tokyo 104. Phone: (03) 276-6611 Telex: J22B11 SAIGIN J

LONDON BRANCH
 30, Cannon Street, London EC4M, 6XH, U.K. Phone: (01) 248-9421-6 Telex: 886400 SAIGIN G

SAITAMA BANK (EUROPE) S.A.
 27 Avenue des Arts, 1040 Bruxelles, Belgium Phone: (02) 230-8100 Telex: 24368 SBEUR B

• New York Branch • Los Angeles Branch • Singapore Branch • Hong Kong Branch • Frankfurt Representative Office
 • São Paulo Representative Office • Seoul Representative Office • Chicago Representative Office
 • Sydney Representative Office • Jakarta Representative Office • Mexico Representative Office • Kuala Lumpur
 Representative Office • Beijing Representative Office • Saitama International (Hong Kong) Limited.

UK mergers bring a conflict of interest

WHEN BRITISH officials recently examined one of the many banking-securities mergers that are rapidly transforming the U.K. financial scene, they found no fewer than 13 potential conflicts of interest.

The combined group (officials won't say which one) was active in banking, insurance, stockbroking, market-making and investment management. As one official pointed out, it was on three sides of the investment market at once: as investor, broker and market maker.

"They did not just have dual capacity," he said. "They had triple capacity." He might have added that the group had fourth capacity as well, that of investment adviser.

This does not mean that the merger will be stopped: the British Government still hopes to create some kind of regulatory framework that will allow the UK financial services revolution to go ahead with safeguards against conflicts.

But it highlights one of the big hurdles that the industry will have to leap not just in the UK but in many other major banking markets as well before the day of the all-round financial conglomerate arrives—if that is indeed where it is headed.

There is little doubt that the revolution is reaching a critical stage for the banks. The euphoria that greeted the early deals in the U.S. between stockbrokers, insurance companies, department stores and almost anybody who cared to join (except banks) has evaporated.

The process of change seems to have got hoggish down in a legislative quagmire created partly by the hostility of special interest groups but also by the argument that "they didn't pass Glass-Steagall for nothing."

It now seems unlikely that the Reagan Administration will allow banks to enter new fields like insurance, real estate development and bond underwriting, widening the lead that the non-banks have already built up over the banks. This is a frustrating prospect for banks with grand ambitions as it is for U.S. bank supervisors who have all but collapsed, so shot through are they with holes.

Deregulation

DAVID LASCELLES

Similar rows are brewing in Canada and Japan, where bank laws are closely modelled on those of the U.S., and where aggressive institutions are making challenges of their own. In Japan, much of the running in the U.S. is being made by U.S. banks which deliberately ignore the niceties of local banking conventions—to the pleasure, it may be said, of Japanese bankers glad to see others be the pioneers.

The decision earlier this year by the Ministry of Finance in Tokyo to allow Vickers de Costa, the London stockbroker recently acquired by Citicorp, to keep its Japanese trading licence was a landmark because it gives a bank, for the first time, direct access to the Japanese securities markets.

Some might say Japan was built into allowing it by the U.S. Certainly, the Ministry will not allow the floodgates to open. But that development, plus the U.S. banks' simultaneous assault on the Japanese trust business, mean that Japan, too, is being forced to grapple with the Gordian knot of deregulation.

The picture is complicated, however, by the parallel debate over scrapping interest rate controls, a bridge that the U.S. has already crossed.

Although these countries' commercial traditions are highly diverse, the issues can be boiled down to:

● Should banks be allowed to enter any line of business they choose—or does their status as takers of other peoples' money make them special?

● If they are free to enter new fields, how should conflicts of interest be prevented and how can the risk of loss be contained?

● If they are not free to enter new fields, should banks be compensated for their obvious and growing handicaps vis-a-vis the investment community, which also takes in people's money but is less heavily regulated?

● To what extent do objections to deregulation stem from genuine concern about the safety of the banking system, or from special pleading?

The view that banks are special seems strongest in the U.S., particularly among regulators. Mr Gerald Corrigan, president of the Minneapolis Fed, argued the case last year, "because they offer current accounts, provide liquidity for other institutions and act as a transmission belt for monetary policy, we should not be indifferent to the scope of financial services offered by banking organisations," he said.

Relaxed view

Such views delight the anti-deregulation brigade and are another reason why change in the U.S. is likely to be slow.

The UK takes a more relaxed line. The Bank of England has been actively encouraging banks to form securities groups, though more to enable them to compete with well-capitalised U.S. and Japanese securities firms than out of well-formed convictions that that is where the banks' future lies.

Mr John Florde, a former adviser to the Bank's Governor, has said bank securities operations might have to be insulated to protect the rest of the bank from loss, and perhaps banks entering the securities business should have stronger capital ratios to reflect the higher risks they face.

But, he said: "It would not

be helpful for supervisory authorities to set regulatory requirements in advance, based on their preoccupations."

In the long run, the most significant point about deregulation in the UK may be that it should enable banks to keep pace with the rapidly changing face of finance. The tax and regulatory reform policies of the Tory Government, never the bankers' friend, have given an enormous boost to the capital markets and greatly enhanced the attractions of bond and equity finance.

This new bias against bank lending could be very damaging to the banks, were it not that they can follow the change by entering the securities business themselves.

In the U.S. this right is still denied to the banks, at least on their home turf, though with their customary ingenuity they have found ways of sticking several feet in the door.

When set against Barclays' ability to put together a £100m securities firm combining a leading stockbroker and jobber on the London Stock Exchange, with its own vast capital resources and 3,000 branches worldwide, being "special" in the U.S. sense seems to carry quite a high price.

Bitter battles obviously lie ahead, but it is hard to escape the conclusion that the banks will get what they want in the end. In many ways, the fait is already largely accomplished: the capital markets groups of Manhattan already rank among the world's largest securities operations, though admittedly in bonds rather than equities.

In Japan, domestic restrictions have merely driven the banks abroad; and in the UK the world's largest securities operations have moved so far that the regulatory structure will have to be built round the new bank-securities groups rather than ahead of them.

While concerns about conflicts and risk are strong, the question is not whether they will stop the whole process in its tracks so much as how they can be accommodated.

Big potential to be tapped

CREDIT CARD companies see Europe as the area of major potential, for much of it is still untapped.

Banks in both West Germany and the Netherlands, for instance, still resist anything but charge cards—the travel and entertainment cards issued by American Express, Diners' Club and Eurocard—or cheque guarantee cards such as Eurocheque.

Visa and MasterCard, the two competing international credit card companies, in association with their affiliates have achieved the greatest penetration within Europe in the UK. The market in France—now taking the lead with microchip or "smart" cards in development—is also growing fast but limited by the fact that credit card accounts have to be cleared within 30 days.

After the U.S. and Canada, the UK is now the third biggest credit card user with a market growing at the rate of 14 per cent a year. The growth potential in the U.S., where it all began, is now limited, particularly for bank cards.

Retail store groups in the U.S. now have about half of the market, with the remainder split more or less equally between the banks and the oil companies. Bank credit card usage peaked in 1979 and is not expected to reach those levels again.

There are estimated to be over 800m cards in use in the U.S., representing 80 per cent of the world total. Canada also has one of the highest proportions of card-owners and the greatest concentration of Visa cards anywhere in the world, so that the scope for growth there is similarly limited.

The amount of plastic money used in Britain has risen by over 50 per cent over the past five years, whereas the same card now in circulation. But whereas nine in 10 adults in the U.S. hold credit cards, only one person in three in Britain is a cardholder and he or she usually only has one or two cards.

The card companies are therefore targeting a major promotional campaign at this market. Visa and Access have substantially increased their advertising budgets in the UK over the past 18 months or so and are estimated to be spending about £2.5m a year. So is American Express.

Barclaycard, affiliated to Visa, and Access (affiliated to MasterCard) have about equal shares of the UK credit card market—42 and 40 per cent respectively. But much of Barclaycard's market is a captive one because the card, like Trustcard, also Visa-affiliated, is a dual-purpose device which can be used as both credit card and cheque guarantee card for Barclays Bank current account holders (or Trustee Savings Bank account holders in the case of Trustcard). Most of Barclaycard and Trustcard's natural market has thus been captured already, even though, in practice, not all use their dual-purpose cards as credit cards.

With Access—the facility

Credit cards

MARGARET HUGHES

launched jointly by National Westminster, Lloyds and Midland in response to the Barclaycard initiative, and since joined by Royal Bank of Scotland, Williams and Glyn's and Bank of Ireland—the market penetration of their collective account holders is only about 30 per cent.

There is thus far greater scope for recruitment, but it is a market which Barclaycard is also competing for. New competitors are also expected from the building societies, while store cards are taking an increasing share of the retail market. It is likely to be stepped up now that chain stores like Marks and Spencer have decided to launch their own.

The longer-term potential for credit cards in the UK will be even greater as both the numbers still paid in cash and the proportion who are "unbanked" diminishes. It is significant that over the past six years, particularly since the issue of the Trustcard, there has been a rapid and marked increase in the number of cardholders among both clerical and blue-collar workers.

"Plastic money" accounted for over 250m transactions, with an estimated total value of about £100, last year. Credit cards now represent 24 per cent of all credit transactions, although in a still cash-dominated society the cards account for only 9 per cent of payments. Cash still accounts for 48 per cent.

Bank-issued credit cards account for the bulk, with 15.6m in issue, followed by store cards, with around 4.7m, and then travel and entertainment (or charge) cards with over 1m. Cardholders are increasing at the rate of 14 per cent a year and actual usage by nearly 18 per cent.

The number of transactions involving the use of plastic money is rising at the rate of 20 per cent a year.

One of the ways in which credit card companies are attempting to increase their market is through new products. American Express set the ball rolling with its Gold Card, since followed by the other card companies with either Premium or "gold" cards.

Aimed at the estimated 1.2m top income people, those with more than £20,000 a year, these limit and provide additional benefits, especially on the travel and insurance side. But the most attractive feature, and the reason why they are issued by banks, is that they offer an automatic, unsecured overdraft at favourable interest rates.

The card companies are also establishing links with new outlets. Access had linked with BP, Visa with Amoco and Barclaycard with Tesco, and Access a lucrative garage forecourt market. The motor trade attracts the highest value of credit card business, representing 25 per cent of the total.

In these pilot projects, credit-card-activated petrol pumps operate in much the same way as cash dispensers, with the cardholders getting fuel instead of cash.

To gain a further foothold in the motoring field Visa has also linked with the Automobile Association and the Bank of Scotland to offer AA members a credit card with extra benefits. The most important are free personal accident cover plus the fact that unlike other credit cards, the whole of the outstanding debt is automatically cleared if the cardholder dies.

A major development will be the use of credit and charge cards to obtain cash from cash dispensers. This is already possible on a domestic basis now. Credit cardholders with the appropriate magnetic striped card and PIN (personal identification number) can obtain cash from the bank's ATMs (automated teller machines).

Since interest is charged immediately, however, and most cardholders have their own bank ATM cards, it has limited application.

Network

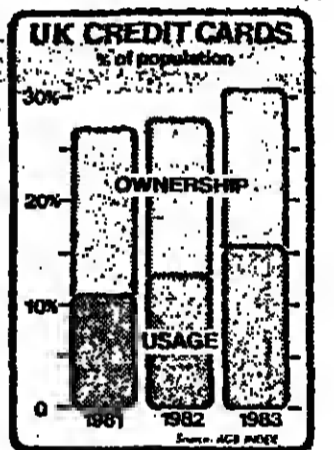
What both credit and debit card companies are now negotiating is an international network of reciprocal dispensing facilities which will enable the cardholder to draw cash when away from home.

With debit cards like American Express there would be a direct debit from the cardholder's bank account and with credit cards the cash advance would be charged to his card account.

Another major advance will involve direct debit at point of sale when or if the clearing banks go ahead with their plans for electronic funds-transfer at point of sale (EFTPOS). Consumer resistance to direct debit in credit-oriented societies such as the UK and U.S. has still to be overcome, while the problem of how the capital cost should be shared between retailers and banks has also to be resolved.

As an interim measure, there has been the recent agreement by Access, American Express, Diners' Club and Visa to form On Line Card Services to introduce in the UK its Card Link system. This is a counter-terminal authorisation terminal linked over an automatically dialled telephone line to a central computer which holds a list of stolen cards.

Some 1,000 are already installed at retail outlets and though operating as authorisation terminals at present could



be extended to include electronic funds transfer needed for direct debit. Visa has already developed its Electron card, which could be used for both EFTPOS and to draw cash from ATMs.

More ambitious still is the "cleva" card which carries a tiny microchip computer within the thickness of the plastic. Each card's chip memorises the credit limit issued to it initially by the bank. Once the customer makes a purchase the sale is debited and the balance adjusted accordingly in the card's memory. Developed in France, it is now being test-marketed there.

In Britain a battery-powered variation is being developed. Acting as a small personal computer, this could be used as a credit card and be capable of doing other things.

An additional advantage of the "cleva" card is that it would be able to carry additional details to identify the cardholder.

France is a major problem for the card companies, involving losses of around \$400m in the U.S. and some £80m in the UK. Though large, these numbers represent only a small percentage of turnover—between 0.25 per cent to 0.5 per cent. This means that fraud prevention has to be economically viable and should not exceed the actual losses.

Magnetic stripes with PINs are now being used on credit cards, while Access recently incorporated a white light hologram on its card. This is a three-dimensional image which can be seen in ordinary light and provides a visual guarantee that the card is genuine and, it is argued, too costly to forge.

Counterfeit cards are less of a problem in the UK than they are in the U.S., however. In the UK, most fraud occurs when lost or stolen cards are used. Other alternatives now being considered include the incorporation of a signature into a digital code and the use of a lenticular lens to produce a photographic signature which can be read only by a similar lens.

As with all other methods their use will be determined by the delicate balance between improved security and economic costs.



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The National Bank of Kuwait SAK KUWAIT'S PREMIER BANK WORLDWIDE



Banking business developments

WORLD BANKING 15

Here and on the following page FT correspondents highlight six key areas of banking and finance

Quest for new sources of finance

TRADITIONAL METHODS of trade and export financing are becoming less and less attractive now that the industrialised countries are committed to stop subsidising them.

The higher premiums which export credit agencies are now forced to charge to offset their losses arising out of the world debt crisis is a further drawback. All this coincides with the lack (or shortage) of hard currency and poor credit ratings of importing countries which are suffering external debt problems.

Banks and exporters are thus being forced to turn to alternative forms of financing—some of them old, some of them new. They include forfaiting, barter or counter trade, multicurrency financing and use of the domestic and Eurobond markets.

It is hoped that eventually borrowers will accept floating-rate finance instead of the fixed-rate long-term financing they have grown used to. More use is also being made of aid funds, particularly in combination with export credits as "credits mixtes" despite U.S. Government objections.

One method which has gained in popularity is forfaiting, the non-recourse discounting of trade bills or promissory notes guaranteed by the importer's

Forfaiting originated in Europe as a means of guaranteeing repayment of export deals with Eastern Bloc countries, but is becoming an increasing factor in trade between developing and industrialised countries. GATT estimates that 8 per cent of international trade deals now involve some form of bartering although others put the figure as high as 40 per cent. Liquidity problems associated with importing countries has also revived the use of irrevocable letters of credit (LIRCs). Normally, exporters prefer not to demand them because of the implied mistrust of the customer but nowadays they are being forced into it as a means of both protecting themselves from possible Government intervention and avoiding the risk of bagging over delayed payments, etc.

This form of trade financing also owes its origins to trading with the Eastern Bloc countries, but is becoming an increasing factor in trade between developing and industrialised countries. GATT estimates that 8 per cent of international trade deals now involve some form of bartering although others put the figure as high as 40 per cent. Liquidity problems associated with importing countries has also revived the use of irrevocable letters of credit (LIRCs). Normally, exporters prefer not to demand them because of the implied mistrust of the customer but nowadays they are being forced into it as a means of both protecting themselves from possible Government intervention and avoiding the risk of bagging over delayed payments, etc.

Exporters also face problems in the financing of their sales to the industrialised world. Since the industrialised countries agreed to phase out the subsidy element in export credits they have often become more expensive than market rates, particularly when exports to the "relatively rich" and "intermediate" group countries are involved.

In an attempt to alleviate the problem, export credit agencies have developed a low interest rate currencies scheme (LIRCS) which allows government to support loans in those currencies where the market rates are below those of the Consensus for exports to relatively rich countries. But this scheme has so far proved to have little appeal.

Banks are therefore looking at alternative sources of fixed-rate finance and in particular the possibility of financing exports on a "pure cover" basis. Under this arrangement the export credit agency would still extend the guarantee but would not provide any interest rate make-up.

The interest rate would be a matter of negotiation between the banks and the borrower and be market-related. The obstacle that has still to be overcome is that of providing the long-term fixed-rate export credits that buyers require from funds which banks have to raise at both floating rates and on a short-term roll-over basis.

Banks have yet to come up with any alternative which have been put into practice. One mechanism which seemed close to getting off the ground was the use of Eurobond or domestic bonds markets using "pure cover". In theory, issuing a bond backed by a government guarantee would provide the borrowers in the "relatively rich" category of countries with a cheaper source of funds.

There would also be a cost saving by eliminating the specific bank guarantee premium. But the insurance premium required for "pure cover" would still have to be paid, and now that these premiums have been increased it has offset the pricing advantage in the bond market that would be gained from a government guarantee.

Bankers have thus been forced back to the drawing board, but they are still hopeful that some variation on this scheme can be used to finance exports.

Trade and export finance

MARGARET HUGHES

bank in his own country. At the exporter's request a bank buys at a discount the debt which the exporter has arranged for his foreign customer once the deal has been concluded.

The bank concerned either holds on to them, assuming responsibility for collecting the payments when they fall due, or it sells them on to a secondary market provided by forfait specialists.

As its use may, however, be limited in those debt-burdened countries where domestic banks are either unable or unwilling to guarantee importer's trade bills. For these customers barter trade and counter purchasing and variations of them are increasingly important tools for financing exports—to the extent that some banks are becoming directly involved and setting up their own trading divisions.

Difficulties

Under a confirmed CILC there is the additional security that an "advising" bank (to the exporter) confirms that it will honour the drawings on the irrevocable credit.

But the present difficulties in export financing are not confined to trade with developing or debt-burdened countries.

Good reasons to be cautious

CONTINUED FROM FRONT PAGE

have also been waging war against costs, paring staff, shutting down marginal operations, and trying to boost earnings from other businesses like foreign exchange and securities trading.

Ironically, Latin America also remains highly profitable because loans that are still performing carry generous spreads, and many banks have large local businesses there.

Citicorp, for example, reported net income of \$282m on its \$18,516m of Latin American assets last year, a higher return than it received on its nearly double \$30,461m assets in Europe, the Middle East and Africa. One reason is that a good part of these earnings was in Brazilian cruzeiros which, as a competitor points out, "are not quite the same thing as dollars."

Purged of some of their excesses, better capitalised and set in a more benign climate, the banks have reason now to be a bit more optimistic, though it would take only another point or two on the prime rate to start the whole structure quivering again. But already the post-crisis patterns are beginning to emerge.

Banks are baring with renewed interest to their home markets, seeking out quality borrowers and sources of stable long-term funds. Their more far-flung international escapades are over, at least for the time being. Another factor is deregulation, which is forcing banks both to protect their interests and prepare for new opportunities.

In nearly all the major financial markets change is afoot, which cannot be a coincidence even though it affects places as diverse as New York and Tokyo, London and Sydney. If there is a common theme, it is the wish to remove protective

barriers that most countries find it necessary to construct at some stage in history to spare banks from excessive competition, by controlling interest rates, restricting entry to the market, or combining banks to the business of banking.

The moves, orchestrated mostly by governments with free market leanings, recognise that technology, the inflation-battered saver's desire for real returns, and the ability of other institutions like stockbrokers to mediate just as effectively as banks between those who have money and those who need it, have all raised enough questions about the traditional role of a bank if not already made it obsolete.

The reform movement seems to have split the banking community, however. There are those who welcome it as a chance to break out of the regulatory straitjacket and conquer new markets, even if it means that in return they have to pay their depositors high

rates of interest, raise more capital to shield themselves against greater risk, and admit newcomers into their own markets.

Others hold to the view that banks are "special cases" and should be a protected species. The way the wind is blowing, the reformists seem to be in the ascendancy, though only the UK, among the major banking markets, has experienced epoch-making changes that could lead to the merging of the securities and banking industries, as in the "universal banking" countries like West Germany or the Netherlands.

Whether these changes will necessarily make banks more profitable or better-equipped to prosper in the brave new financial world of the late 80th century is another matter. There is an assumption that they will. But as successive banking crises have shown—including the LDCs—there are good reasons to be cautious when banks try something new.

Sector receives fresh lease of life

CORRESPONDENT BANKING—the banks' own banking system—has long been the old maid of international banking. But over the past two years or so it has taken on a new lease of life as banks rediscover the attractions of their correspondent banking relations—freed as they are to look elsewhere for profits now that credit margins have been pared and lending opportunities are fewer.

Correspondent banking

MARGARET HUGHES

The impetus for improved efficiency has also come from outside the banking industry—from the corporate customers whose needs are, after all, the raison d'être of correspondent banking. This aspect of banking has developed from the expansion of world trade, with most of the services which the banks provide each other ultimately meeting the needs of customers involved in trading with or investing in countries other than their own.

U.S. banks, in particular, have seen a sharp reduction in their free balances, which have been cut back by over two-thirds to less than \$5bn over the past four years. This trend is also being felt in Europe with more services being charged on a fee or commission basis, but to a lesser degree.

Compensating balances still remain the main mechanism of payment for correspondent banking services in Europe. But these services are being more explicitly costed and priced as banks place more emphasis on making each service profitable in its own right irrespective of how it is paid for.

Correspondent bankers are also realising the advantages of payment by fees or commissions, which are both quicker and more stable than free balances. There is also greater awareness that charges should be oriented towards markets and customers rather than product-related, given that the needs of markets and customers vary widely.

New technology has enabled corporate treasurers to become more fully informed. They are now conversant with a much wider range of financial techniques, such as hedging, swaps,

options and financial futures. This, combined with the treasury and cash management services which they can obtain from their banks, enables them to manage their funds better.

As a result, companies are now demanding a much wider and more complex range of services from their banks. This in turn is reflected in the services provided within correspondent banking.

In meeting these needs technology has become as crucial to correspondent banking as it is to the corporate treasurer. As the division heads of one of the leading players in the field puts it: "Correspondent banking is now a system-dominated game." Ironically, it is those very systems that have lost the correspondent banks their lucrative free balances and forced them to re-evaluate their services as well as their costing and pricing.

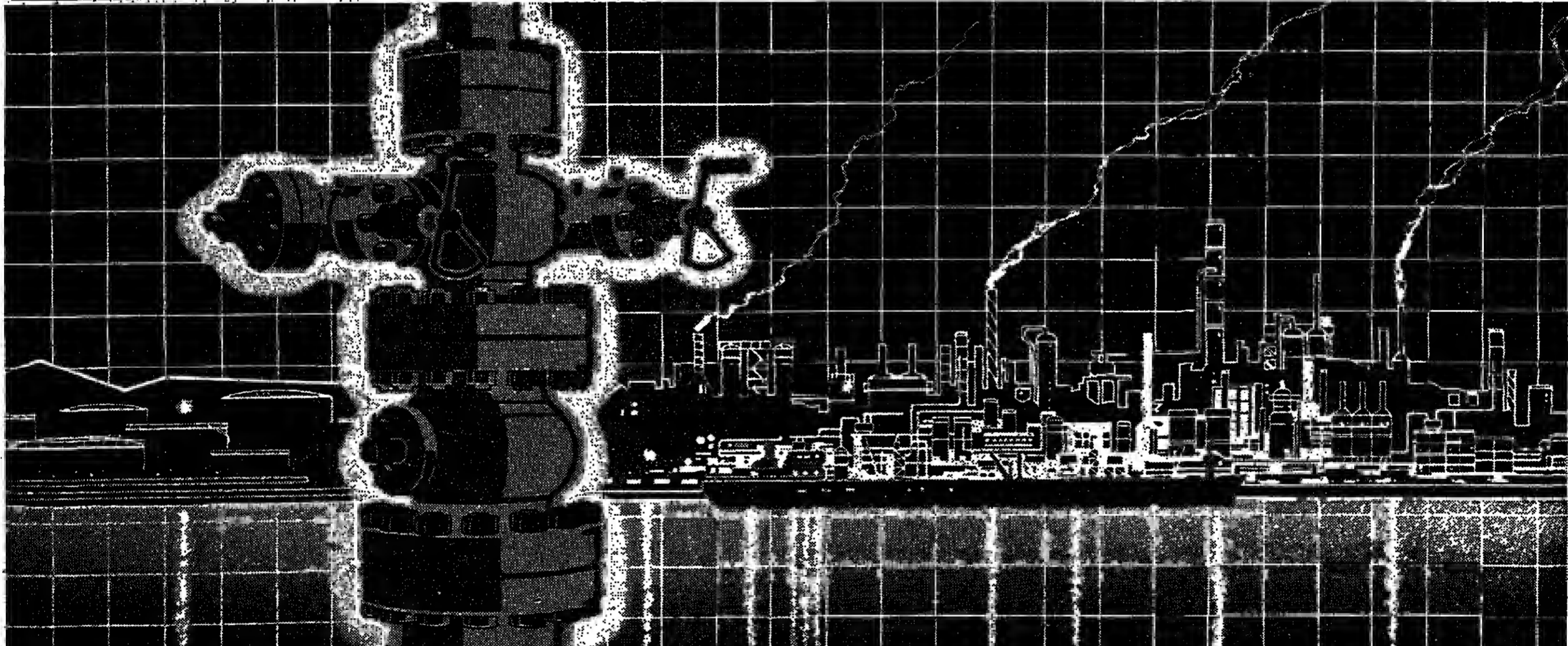
Services

Given the broad range of services now required within correspondent banking, not all banks will be able or even want to provide them. Fewer still will be prepared to invest in the new technology now needed to provide these services. It is significant that Midland Bank, very much the bankers' bank in London, has been in the forefront of technological advance on the funds transfer side.

Midland was the first of the UK clearers to introduce an automated funds transfer system providing corporate treasurers with a direct link through their own computer terminals to Midland's own automated payments system, itself linked to international wire transfer systems such as SWIFT.

Midland Bank also accounts for 83 per cent of the volume and 35 per cent by value of the transactions now handled by CHAPS, the UK clearing house automated payments system. Midland expects CHAPS to have a "very significant" role in correspondent banking too.

Once it becomes the main UK clearing system, probably in about a year's time, all sterling transactions, whether domestic or international in origin, will be settled through CHAPS. It will then be a key link in correspondent banking.



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Living by their wits without privileges

TRADITIONALLY they sat in quiet, dignified, panelled rooms talking with authority to leaders of industry and commerce and relying on their contacts, experience and ingenuity to fix a deal here and dream up a clever scheme there.

Today, more and more, they are forced to earn a living on a crowded trading floor, amid the shouts and the shirt-sleeves, relying on their sensitivity to market trends to make a dealing turn or to syndicate a loan. It is not so comfortable but if done properly it can be a lot more profitable.

In New York they are called investment bankers, their role rigidly separated from true banking for the past 50 years by the Glass-Steagall Act. London's equivalent merchant bankers have been less hampered by regulation; but commercial logic has also dictated that they should progressively move out of the pure lending business, where they are rarely competitive nowadays with the big commercial banks.

With the promised opening up of the London Stock Exchange to outsiders — already merchant banks like Warburg, Morgan Grenfell and Samuel Montagu have bought minority stakes in London broking or jobbing firms — the London merchant banks are clearly moving in the same general direction as the New York investment banks.

No two are precisely alike in emphasis. But they concentrate on those areas of the financial markets where individual skills are of paramount importance. The securities and money markets, precious metals, corporate finance advice and investment management are the type of areas where they are most at home.

Influence

Merchant banks do not, however, have any precisely defined zones of influence. Such tangible privileges as they once had in London — such as specially favourable discount rates at the Bank of England — have been whittled away. They have to live by their wits and they are under constant attack from several directions. For instance, U.S. securities houses — the best example being Merrill Lynch — have turned themselves into broad financial conglomerates, combining specialist skills with the

Merchant banks

BARRY RILEY

kind of massive distribution capability which the investment banks have never enjoyed.

More commonly the threat comes from the big commercial banks, which are reluctant to be shut out of some of the most profitable areas of activity. In the UK, Barclays is buying a major stake in the future of the stock market through the dual purchase of Wedd Durlacher and De Zoete and Bevan, adding to an already existing merchant banking subsidiary, while New York-based Citicorp is becoming a major player on the world's capital markets.

Nearly all the merchant banks on both sides of the Atlantic are in the throes of a strategic rethink. In a narrow sense this is due to deregulation in various forms, but technological change probably presents a more fundamental challenge.

Telecommunications have become much more efficient and vastly cheaper in the past two decades. Telephone markets have sprung up in securities, foreign exchange and liquidity, largely superseding trading floors except in specialised futures markets. This process has rendered many traditional institutional demarcation lines obsolete.

National frontiers, too, are frequently leapfrogged. The Eurobond market, though largely located in London, is entirely international, and some of the big U.S. investment banks are now shuffling bond inventories around the world through successive time zones centred

on Tokyo, London and New York. The same pattern is beginning in equities.

The securities markets are increasingly becoming the core business of the investment and merchant banks. Once these banks were dominated by the big individual deal-makers, shadowy but powerful individuals who obtained much of their business through long-standing relationships — by knowing the right people, even sitting on clients' boards.

But the amazing rise to prominence of Salomon Brothers, from modest origins as a bond trading house, has typified the change in the business environment. Salomon has successfully attacked the corporate finance business from the market trading end, where it has great expertise in packaging and pricing new issues, rather than through the traditional old-boy network.

Other New York houses have also been building up their trading operations, though the "trades can be active" — as at Lehman Brothers, where tension between the traders and the traditional corporate finance men led to a boardroom struggle and the sale of the firm earlier this year to the American Express group.

Merger

The absorption of Lehman into a larger group, following the earlier merger of the partnership of Salomon into the listed company Philbro-Salomon, emphasises the need for new capital which follows from the development of the role of investment and merchant banks into securities market-making on a major scale.

The number of remaining partnerships on Wall Street is dwindling, and although many London merchant banks are public companies their shares are often tightly held and the requirement for large lumps of new capital will call for painful decisions.

One route is through takeover by larger organisations, with an obvious threat to the sovereignty of management. The other is to stay independent but accept a much more limited and specialist role. Many banks on both sides of the Atlantic are now agonising over which road to travel.

UK clearers lick their wounds

FEW ASPECTS of a bank's business are as vulnerable to the vagaries of government as leasing, because of the key role played by tax levels. But there is no doubt that the UK Government's recent decision to phase out capital allowances was a bombshell which has had repercussions well beyond Britain.

Not only has it landed UK banks (including numerous UK subsidiaries of foreign banks) with as much as £1.6bn in extra tax payments over the next few years. It has also cost the two largest British banks, Barclays and National Westminster, their prized triple A rating on the U.S. credit markets because of the severe impact it will have on their balance sheets and capital ratios.

Simply put, what the Chancellor of the Exchequer did in his March Budget was to eliminate, over two years, the set-up that had permitted banks to use capital allowances obtained from their leasing business to defer, *ad infinitum*, substantial tax liabilities.

It would not have been so bad if the banks had made a full provision for these liabilities — if only for the sake of prudence. But they never expected to pay it, so they

set aside only the minimum that accounting conventions demanded: 25 per cent. Now, they have to find the remaining 75 per cent.

This problem would not have occurred in the U.S., where banks have to make full provision for deferred tax.

Sir Donald Barron, chairman of Midland Bank, complained that UK banks "have a particular reason to feel aggrieved. They were subject to a special tax in 1961 because it was alleged — wrongly as the Institute of Fiscal Studies made clear — that they had a beneficial tax and profit position."

The banks always claimed that they passed on to their leasing customers some 80 per cent of the tax benefits.

It is the Chancellor's move looked harsh, it fitted into a broader context of tax reform. For years, UK banks have been accused of paying too little tax, but the arguments in favour of keeping capital allowances were strong: they stimulated capital investment.

The Thatcher government takes a different view. It wants to reduce the appeal of capital over labour to raise employ-

Leasing

DAVID LASCELLES

ment, and replace special tax breaks with a general reduction in corporation tax from 52 per cent to 35 per cent.

Removing the leasing advantage also advances another cause: the equalisation of tax treatment between banks and building societies, which is one of the present government's aims.

The only consolation for the banks is the reduction in corporation tax. At least that deferred portion will be taxed at a lower rate, so the damage will be slightly less than it might be. Even so, the Big Four clearers will have to find at least £1.5bn, and possibly quite a lot more. This is equivalent to their total pre-tax earnings in 1983.

Banks had the choice of "taking it on the chin" by making a huge once-for-all transfer on their balance

sheets from reserves into the provision for deferred taxation, or taking a bit out of profits every year for the next 10 years or so. After some wrangling, and prodded by the Bank of England to take a common line, they agreed on the once-for-all transfer even though this will strain capital ratios.

The stock market was terrified that it would mean a string of rights issues, and bank stocks plummeted. But the Bank of England has promised to be understanding and that danger seems to be passing. The banks have all reassured their shareholders that their balance sheets can take the strain.

The exact amounts the banks will have to pay depends on how much new leasing business they can put together between now and April 1985, when the allowances disappear. Not surprisingly, there has been a scramble for deals since the Budget, and leasing rates have been pared to the bone. After that, the prospects are heavily shrouded in uncertainty.

Some observers have predicted the slow death of the UK leasing industry, particularly for small ticket items, because of the improving

health of UK companies and the growing availability of other forms of finance.

But the leasing industry itself, of which the banks account for three-quarters, is putting on a brave face, claiming that there are reasons other than tax why companies lease rather than buy equipment, and these will survive.

The Equipment Leasing Association said: "Leasing flourishes in other countries without a generous system of accelerated depreciation."

Even so, the changes will have a major effect on the past-tax profitability of the UK banking industry at a time

when deregulation of Britain's financial markets will be putting new pressures on them. Non-bank leasing companies also feel they have been hit by a measure that was primarily designed to make banks pay more tax, so they feel bitter.

Coincidentally, the Irish Government proposed a similar change this year, but it has agreed to a compromise that will restrict the benefits of capital allowances to leasing income so that banks cannot use it to shelter revenues from other parts of their business.

Profitability a more critical factor

IT IS a source of endless frustration to consortium bankers that people think they work in a declining industry.

Every time a consortium bank disappears, usually through a buy-out by one shareholder, there are rumours of more impending demises and not without reason. Between 1979 and 1981 the number of consortium banks in London — where the bulk are based — fell by a fifth, from 29 to 23.

Some banks which fit the description of a consortium — a joint venture belonging to a group of bank shareholders — prefer not to call themselves one at all to avoid the association. It is not a particularly healthy state of affairs.

But even the disparagers of consortium banking have had to admit that the business has not withered away as many of them predicted. In the past few years the number of demises has levelled off, and new consortium banks do still occasionally get

formed. According to Bank of England statistics, the number in London has steadied at around 23.

But the character of the industry has changed as well-established member banks come to view their consortia more as an investment than a means to enter a market or create a product they could never handle on their own. The profitability of consortium banking has therefore become more critical. Many have also adapted to radical changes in their markets, usually a sign that they have a life of their own.

The changes in consortium bank ownership in the past few years, argues Gerard Legrain, chief executive of Intermex and previous chairman of the Association of Consortium Banks, reflect as much as anything the evolving strategies of Scandinavian banks rather than the demise of the concept.

These banks were active consortia-founders a decade ago, precisely because they were too small to do much internationally by themselves. But many have now reached the size when they can go it alone.

The major development in the past 12 months was the buy-out by Den Norske Creditbank, Norway's largest bank, of Nordic Bank, and reports of management rifts. The other shareholders, Svenska Handelsbanken, Kansallis Oskari Pankki of Finland, and Copenhagen Handelshanken, have since set up on their own in London.

Mr Jaakko Leskin, chief general manager of Kansallis, which is about to open its London branch, said: "We felt the time had come to go on our own. It was an amicable parting." However, as he points out, the group is sticking together to tackle the U.S. market where none have enough locally-based business to go it alone.

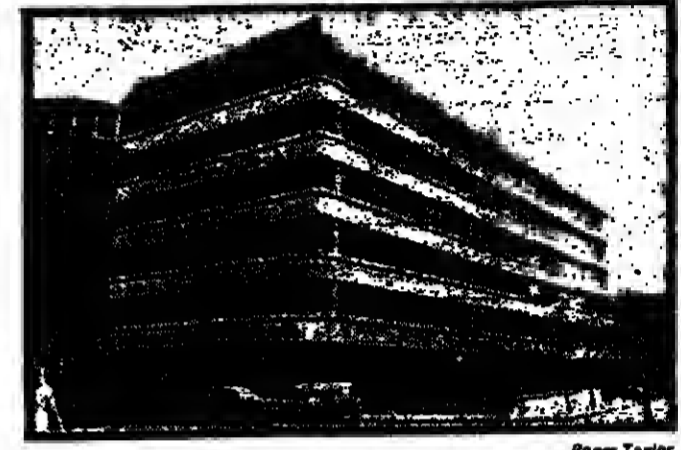
Last week the London Interstate Bank was bought out by its Danish shareholder, Sparakassen SDS.

Scandinavian Bank, one of the largest consortium banks with assets of £2.5bn, has also lost its two Danish shareholders, Den Danske Bank and Den Danske Provinsbank. But membership seems to have stabilised there. Union Bank of Finland, an apparent candidate for departure since it is also about to open a London branch, will stay in, according to Mr Eg Harald, vice-president international.

Mr Garrett Bouton, the chief executive of Scandinavian Bank and new chairman of the association, claims that as the 15th largest bank in the UK, it has by far the largest Scandinavian presence in London, a fact which members can impress on their clients.

Making up for the reduction in numbers, though, there have been new entrants. The central savings banks of Sweden and Finland, Svedbank and Skopbank, recently set up Fennoscandia, while a group of Italian banks has just launched ITAIE. There are also reports of a possible ordanban bank.

These ventures suggest that



The Copenhagen Handelsbank's headquarters in London.

consortia as a way into international banking still have some appeal, even at a time when the market is not exactly free of risk.

In fact 1983 was a tough year for consortium banking, which has always prided itself on being rather profitable. Scandinavian Bank, faced with large loan difficulties in Switzerland, had to make heavy provisions which cut profits from £13.2m in 1982 to £10.2m last year.

Libra Bank, which belongs to the breed of consortium banks owned by major international banks and has consistently been one of the most profitable, saw earnings fall from £88.3m to £31.1m in the same period because of large Latin American loan provisions. The bank is also highly conservative.

Although profit falls were far from universal, 1983 results reflected the fact that consortium banks are chiefly in the international loan business, often with heavy concentrations in regions they were specifically set up to service. Arabank, the Arab-Latin American venture, for example, has two-thirds of its loan portfolio in Latin America and not surprisingly suffered because of it.

Others, like the London- and Brussels-based EBC group, managed to keep profits rising but saw their balance sheets shrink as they cut back their loan commitments.

Like many consortium banks, Arabank had to draw on a large credit line established by its owners because of feared funding difficulties. In fact, such lines have become almost commonplace in the past few years, partly as a result of pressure from bank supervisors keen that parental responsibility for consortium banks be clearly established.

Several London-based consortia have also been — or will be — hit by the Thatcher Government's decision to phase out capital allowances. This will force them to pay taxes on their leasing business which they expected to defer.

Mr Adhel Latif Benan, general manager of UBAF, the Paris-based Arab consortium, recently summed up the dilemma facing banks like his: they operate only a wholesale bank "and therefore lack a domestic base and a domestic market. Their dependence on the money markets can make them vulnerable during periods of liquidity squeeze and could also restrict their growth, especially since their ability to increase their capital in a permanent way is rather limited."

The answer, said Mr Benan, was for consortia to carve out niches for themselves but to do it in a coordinated way so that they do not duplicate each others' efforts.

Banks take greater share of risks

Project finance

MARGARET HUGHES

GIVEN the continuing problems associated with the debt crisis, international banks have become more cautious in their lending. They are steering clear of sovereign risk loans and opting instead for project-related financing. But, ironically, the dearth of viable projects is forcing banks to take on a greater share of project risks.

Earlier this year National Westminster Bank and Bankers Trust put together a \$400m financial package for the development of Sun Oil's Balmoral oil field in the North Sea. NatWest is in the process of co-ordinating another £250m (\$394m) syndicated loan to finance the development of Total Oil Marine's Alwyn North field.

These are just the latest examples of project financing in the form of limited recourse financing now being undertaken in the North Sea. It is estimated that project financing, as opposed to corporate balance sheet fund raising, accounts for about a quarter of Britain's North Sea capital spending requirements, currently running at well over \$2bn.

With limited recourse financing the main security for the loan is the future cash flow of the project rather than the borrower's ability to repay out of his own balance sheet. With pure project financing or pure recourse financing, the lending is entirely secured against the revenue generated by the project concerned.

But such financing, where there is no underlying guarantee from either the project

operator, sponsor or local government, is rare. More usual is limited recourse financing with the banks taking on the responsibility for identifying and evaluating, as well as shouldering some of the risks.

On the whole, banks still tend to want recourse to the borrower during the early stages of the project to ensure that construction is completed, cost over-runs are met and production gets under way at least to an initial pre-set target.

Increasingly, however, banks now consider the production and marketing stages to be bankable risks. Even so, they require evidence of long-term sales contracts for the project output at market-related prices, but will take responsibility for evaluating those risks themselves.

Rewards

Higher risks should mean higher potential rewards. But as more and more banks compete for the few projects around the rewards are getting smaller as margins are pared in the bid to win business. The margin on the Sun Oil loan was only 1 of a percentage point above Eurodollar rates, rising to 1.25 per cent, once the field reaches full earnings potential. Yet it is a marginal oil field.

Project financing evolved in the U.S. for the financing of energy and energy-related projects and has tended to be dominated by the U.S. banks. But it is now being adopted elsewhere, particularly for North Sea oil projects and mineral resource development in Australia.

Gradually, other banks are coming into the field — in the UK, Europe, Australia and Canada — thus heightening the competition for project financing deals.

The risk burden which the banks are taking on in limited recourse financing is considerable. A fall in market prices, as witnessed in the oil industry, can soon endanger a project's ability to generate sufficient revenue to service the loan.

As well as taking on more risks, banks are also having to be more innovative in the project financing. This is largely due to the erosion of subsidised export credits, which have traditionally covered some 85 per cent of the foreign currency element of project financing.

Banks are making greater use of bilateral and multilateral aid in putting together their financial packages. One development which, it is hoped, will improve the security of project finance in the developing world is the World Bank's new co-financing formula.

Although it falls short of the cross default clause which the banks had been lobbying for, the new scheme, introduced just over a year ago, has been used for the financing of four projects to date, two of them in Hungary.

The new formula will also be used in the first-ever co-financing operation for a country whose debt is being rescheduled. This is the \$300m equivalent loan guarantee facility which Lloyd's Bank is arranging for Companhia Vale do Rio Doce, a leading Brazilian mining company, for the further development of its Carajas iron ore project. The World Bank participation will be \$7.7m.

To encourage commercial banks to continue lending to developing countries, the World Bank now anticipates directly in the commercial financing of a project in addition to putting up its own separate loan.

Previously the commercial and World Bank loan were undertaken in parallel. This earlier system, introduced in the mid-1970s, had only limited success with co-financing accounting, at most for 2 per cent of commercial bank lending to developing countries while only some 12 per cent of World Bank projects had any private sector co-financing.

With the World Bank participating directly in the syndicated bank credit the aim is to provide greater security to the banks on the supposition that borrowers would be unwilling to default on such a loan for fear of endangering their access to other forms of World Bank financing.

The World Bank also hopes that commercial banks will put co-financed loans into a special category when setting their country lending limits, the overall aim being to ensure that developing countries have access to capital markets for the financing of their projects.

Cumbersome

The new scheme is also designed to make loan repayment terms more realistic by extending the maturities beyond those normally available in commercial bank lending. The World Bank also hopes that it will ultimately help borrowers to get finer margins, although the banks have so far not agreed.

Indeed, some banks contend that, far from being cheaper, the syndicated loans involving direct World Bank participation will be more costly, both in terms of time and margins, because the loan documentation follows World Bank rather than commercial bank procedure — making it both slow and cumbersome.



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FT6

WORLD BANKING 18

Offshore Centres

Quality and soundness are increasingly sought after in offshore centres, as FT correspondents report here

Singapore as 'Zürich of Asia'

OF ALL the Far East's putative offshore banking centres, Singapore and Hong Kong still stand head and shoulders above their neighbours in importance and are easily maintaining their world rankings in terms of assets.

Singapore—widely dubbed the Zürich of Asia—is now reckoned to be the world's largest offshore banking centre, after the Bahamas.

This is a reflection of the island state's geographical location, which allows it to exploit its time zone advantages, and the strenuous efforts of the Singapore Government to provide the sort of well-ordered environment which nourishes the modern "financial super-market."

At the end of 1983, total assets and liabilities of the Asian dollar market—the regional equivalent of the Euro-dollar market which is centred on Singapore—stood at almost US\$112bn. This compares with a figure of \$137bn for the Bahamas and \$349bn for Hong Kong, which is on a par with Bahrain.

London, not technically an "offshore" centre, has assets of some US\$60bn.

Expansion of the Asian dollar market in recent months has been irregular and slower than in the past because the international debt crisis has reduced lending opportunities and made bankers more cautious. But it has been faster than in Europe, not least because of the better economic performance of many Asia-Pacific countries.

Thus, assets growth in 1983 of 7.7 per cent was well down on 1982's 20.4 per cent and the 57.6 per cent rise shown in 1981.

Statistical breakdowns show that around 65 per cent of total assets are interbank loans, two thirds of them made outside Singapore. Some 36 per cent of assets are of 30 days' maturity or less.

Singapore therefore retains its standing as a funding centre for the region, a safe home for surplus funds and short-term deposits.

Hong Kong, for its part, remains the region's premier banking and financial centre, surpassed in importance only by Tokyo, and is the undisputed East Asian leader in terms of loan syndication and funds management.

Singapore has in the past year continued its efforts to chip away at this position. Tax incentives for loan syndication and fund management have been welcomed as a step in the right direction, but the practical results have been slow in coming.

Partly, this is because the loan syndication business itself has been slow, but to some Singapore's tight regulations are also irksome. Equally, the

The Philippines' \$25bn debt crisis, precipitated by the capital outflow which followed opposition leader Benigno Aquino's assassination last August, was one.

Citibank's decision to freeze foreign currency deposits in its Manila branch was another. The implications of both are still unfolding.

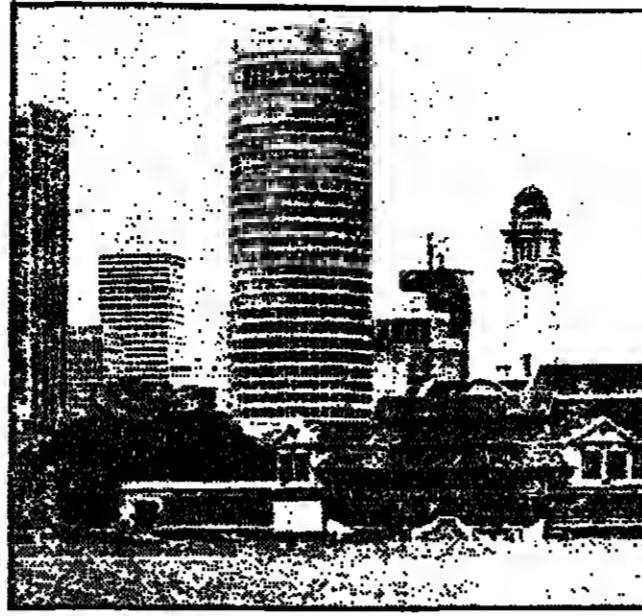
Less seriously, but importantly, Indonesia, Malaysia, Thailand and South Korea have all been the object of careful attention by their own governments and by bankers to assess their respective debt positions and credit worthiness.

Each country has taken action to stay on the side of caution, and all have successfully come to the markets this year as a result, thereby adding to the confidence generally felt about the region compared to either Latin America or Africa.

Meanwhile, Singapore and Hong Kong are close to setting up their own financial futures exchanges to add to their international standing, while Malaysia is already operating its own commodities futures exchange. The Singapore International Monetary Exchange (Simec) is expected to be operational by July, once its unique "mutual offset" link with Chicago is approved.

Hong Kong's exchange aims to embrace the contracts on its existing commodity futures exchange and a new stock index futures contract based on the local Hang Seng index.

Malaysia's commodities ex-



Financial district, Singapore

change is under a cloud because of the controversy that led to the recent temporary suspension of palm oil trading, but hopes to add a tin contract to the palm oil and rubber contracts already in existence.

To be factored into these Asian offshore developments is the role of Japan. Japanese banks have been slow to expand in the region compared with their U.S. or European counterparts, although their participation in issuing certificates of deposit or in the floating rate note market has been aggressive. The more important

question concerns deregulation of Japan's own financial services industry and its domestic financial markets.

Here it is clear that Japan's capital markets are becoming more accessible to outsiders. Banks are to be allowed to raise more money in Tokyo through sales of certificates of deposit, and there will be easier access to the Samurai bond market.

This recognition of the need for change could have significant implications for other offshore centres in the Far East, and developments are being watched closely.

The Far East

CHRIS SHERWELL
in Singapore

incentive for fund management deliberately excluded investment in Singaporean or Malaysian stocks—a disadvantage which underlines how the island state refuses to expose the Singapore dollar to unnecessary pressures through the volatile local stock markets.

Even footing

With the two countries now on a more even footing, institutions will probably choose where to do offshore business on the basis of factors such as convenience and personalities as much as the differing regulatory climates. But the truth also is that the two centres remain complementary as well as competitive—and popular belief is that uncertainty in Hong Kong relating to Britain's handover negotiations with China will not necessarily rebound to Singapore's disadvantage.

None of this means that there have been no shocks for international bankers in the region.

Generous policy on bad debts

LUXEMBOURG'S 114 banks continued to enjoy a quiet boom in profits last year. According to provisional estimates from the Grand Duchy's Monetary Institute, operating profits of the banking sector rose by about 15 per cent in 1983.

This followed a year of very sharp increase. In 1982, profits leapt from LuxFr 36bn to LuxFr 57bn as banks began to enjoy higher interest margins, as well as a rapidly increasing rate of return on fixed rate lending as interest rates generally fell.

Last year's rather slower growth reflected the absence of these basic factors but it still left profits at another record. The surprising thing is that this has happened at a time when banking business measured in terms of total assets has stagnated.

Total assets in the banking system rose by 10.1 per cent to LuxFr 6,592bn last year but almost all the increase reflects

the depreciation of the Luxembourg currency against a soaring dollar. Measured in dollar

terms the increase in banking business was very small indeed. How have banks managed to boost their profits without taking on large amounts of new business?

One answer lies in Luxembourg's exceptionally generous policy towards provisions for bad and doubtful debts. Many banks find that they can apply their entire operating earnings to such provisions.

At one and the same time, this reduces their immediate tax burden and provides the banks with cost-free funds to finance their loan portfolio. It means a profits bonanza so long as the provisions do not have to be unwound.

Luxembourg's authorities consider that such an approach is perfectly reasonable. Officials argue that a provision will

either have been necessary to cover a debt that actually turns out sour—in which case making the provision in the first place was perfectly sound banking practice.

In other words, some of the more exotic offshore banking centres—all have driven money into safer havens. Their proximity to Europe's financial capitals has also helped even though the real decision-makers in offshore banking centres seldom actually work there.

But the islands have added an appeal of their own: political stability, low taxation, being choosy about who they allow in. Only banks of international standing are considered; those offering new types of services or broadening the geographical representation are specially favoured. Jersey would like, for instance, to have more applicants from the Pacific Rim and the Middle East.

The islands have also made a big effort to clarify and update commercial law covering matters like securities, investment and trust business, much of which was blurred together with UK law.

Though the islands regulate their own banking industry, they draw heavily on the Bank of England, and belong to the grouping of offshore bank supervisors created by the Basle Committee which is trying to plug gaps in international bank supervision.

Apart from taking in deposits the islands major banking business consists of booking international loans and investment management. Most of the City of London's merchant and clearing banks have finance and trust offices in either St. Helier in Jersey or St. Peter Port in Guernsey.

The offshore fund management business has grown particularly fast, thanks in part to the boom in world stock markets in the past couple of years. One flourishing sector was the popular UK currency roll-up funds which accumulated some \$2bn in Jersey.

The Thatcher Government's decision to close the tax loophole that made them possible was a blow. Rothschild's Old Court International Reserves, the biggest fund, shrank from one \$1bn to about \$900m, though it has come back a bit since. But if the islands suffer from changes in UK tax law, they can also benefit. The Chancellor's decision to make UK banks pay interest to depositors net of tax does not apply to the Channel Islands, so banks there should have a greater appeal.

Ironically, the islands' banking growth is more likely to be constrained by local bottlenecks than a lack of business, especially in Jersey with its tough housing and immigration rules and shortage of qualified workers.

The Jersey States (government) hopes that computerisation will aid efficiency and enable banks to pass more business through their operations there (a lot of it is, after all, very routine).

Even so, the island is going through a period of budgetary stringency, and the temptation to ease admission rules or raise taxes has been growing.

Jersey thrives on foreign currency

IN A turbulent business where reputations are hard-earned and easily lost, the Channel Islands' decade-old efforts to establish themselves as major offshore banking centres seems to be paying off.

The deposits and profits of banks able to set up shop there—especially in Jersey which keeps the tightest clamp on immigration—are booming and the local economies are benefiting handsomely from employment and tax revenues.

Last year deposits in Jersey—where the bulk of the business lies—rose 27 per cent to £17.5bn (they were barely £11bn two years ago). Virtually all this growth is due to foreign currency business, an indication of its mounting international stature.

Guernsey, which came into the offshore finance business a little later, has deposits about a quarter of this size.

Jersey's 46 banks—which include most of the big names from Europe and the U.S. plus a smattering from the Far East—totalled £56m, up from £48m in 1982 and £38m the year before that.

Guernsey bank profits are about half as big. For both islands, finance now vies with tourism as the major economic activity. Jersey has also made it clear that bank profits tax, which accounts for nearly a fifth of total tax revenues, will be one of the major sources of revenue growth in the next few years, underlining its dependence on offshore banking.

None of these figures, incidentally, include the local branch operations of the big UK clearing banks, which are substantial in themselves.

Channel Islands

DAVID LASCELLES

In one sense, the Channel Islands have benefited from the misfortunes of others: political uncertainty in Hong Kong, scandals in the Isle of Man, the offshore banking centres have seen a different challenge emerging in the form of subpoenas from Florida courts seeking confidential information on offshore accounts with alleged organised crime connections.

This raises the question whether the U.S. authorities having attempted to match the centres' tax-exempt status for non-U.S. residents with the IBEs (and for U.S. residents with measures like the planned lifting of withholding tax on U.S.-issued bonds) are also attempting to put pressure on the second element of offshore

Business picks up after IBF blow

AFTER high growth in the late 1970s, culminating in record leaps during 1981, the four main Caribbean offshore centres slowed down dramatically in 1982. In the case of the largest, the Bahamas, business volume went into sharp reverse.

For 1983 the Bahamas and the Cayman Islands show slight growth, while Panama, which disputes second place with the Caymans, fell back somewhat. Figures are not yet available for the 1982 performance of another main centre, the Netherlands Antilles.

1982 was of course, the year of the Mexican liquidity emergency, marking the beginning of the Latin American debt crisis. It was also the first year of operation for the international banking facilities (IBFs), whereby "offshore" books can be run from New York and other U.S. centres.

Airline executives in December 1981, the IBFs were seen by some as sounding the Caribbean centres' death-knell. This prophecy, based on poor understanding of both the IBFs and the offshore centres, has proved to have been false, as Caribbean-based bankers are quick to point out.

The IBFs certainly took away some business, and investment exactly how much, to calculate it was a U.S. initiative some U.S. banks here did their bit to support it, says a European banker based in the Bahamas. But last year the IBFs' business came back again.

Offshore bankers highlight the disadvantages of IBFs. Not only are they restricted to business with each other and non-U.S. residents, they also have a minimum of 48 hours and \$100,000 on customer accounts. From the point of view of non-U.S. banks there are other drawbacks too. Although exempt from federal and New York City taxes, IBFs based there are not free of New York state tax, for example.

Most important of all, they are still subject to U.S. laws, which make it impossible to offer the same degree of confidentiality as can be obtained in a jurisdiction where the law actually forbids disclosure to outside authorities of the details of an account.

Apart from experiencing new competition from the IBFs, the offshore centres have also seen a different challenge emerging in the form of subpoenas from Florida courts seeking confidential information on offshore accounts with alleged organised crime connections.

This raises the question whether the U.S. authorities having attempted to match the centres' tax-exempt status for non-U.S. residents with the IBEs (and for U.S. residents with measures like the planned lifting of withholding tax on U.S.-issued bonds) are also attempting to put pressure on the second element of offshore

banking, confidentiality. Although narrower investigations are involved at this stage, are these merely the stalking horses for a bigger game, namely tax-avoiding U.S. corporations?

Bankers in both the Bahamas and the Caymans, towards which most of the subpoenas have been directed, are unanimous in denying that they subscribe to so paranoid a perspective. They regard the U.S. authorities' born-again interest in offshore accounts as no more than straightforward criminal investigation, and not as the thin end of any IRS wedge.

They do not want the business of drugs dealers, they say, and point out that illegally-generated money is just as likely to be laundered in Miami.

The Caribbean

MAIO ELSTOS

"We have been turning down cash deposits from U.S. residents for some time," says a Panamanian banker. A banker in the Caymans says his bank no longer takes trust business from U.S. residents. "After the 1976 U.S. Tax Reform Act, it is just not possible to do business for U.S. resident to do." The implication is clear. Only someone who had obtained the funds by breaking U.S. law would now be knocking on an offshore bank's door.

But for confidentiality, the laws of the centres themselves are a brake on the amount of disclosure that can be made, even in a criminal case. If the accused were found innocent, a Bahamas banker explained, he could sue the bank for breach of confidentiality.

All three major centres are in the process of drawing up voluntary codes of conduct, while the Netherlands Antilles is negotiating a new tax treaty with the U.S. The Bahamas code draws on Swiss law, which balances legal enforcement of confidentiality with a willingness to help outside authorities where criminal activity can be proved.

But banks in the centres are not merely reacting to events. They are confident that they have more to offer both U.S. residents and non-residents than would be suggested by the questions raised by either the IBFs (that they are merely tax-avoidance centres) or the Bahamas code (that they are places with top secrecy and no questions asked). Instead they point to the highly geared operations—in terms both of human and financial resources—which are possible from offshore; and that, they say, can only be of benefit to the international financial system as a whole.

P. M. Elstos is editor, FT International Banking Report.

	1980	1981	1982	1983
Bahamas	125.47	150.29	172.33	134.39
Caymans*	23.06	22.88	24.65	29.03
Panama	34.21	41.10	43.48	37.50
Neth. Antilles	7.39	10.72	11.68	n.a.

* U.S. banks' branches only. Source: IMF, Panama Bankers Association

Trend from lending to financial services

Bahrain

PETER MONTAGNON

GROWTH IS no longer a foregone conclusion for Bahrain's 75 offshore banking units as the regional economic downturn, and the more cautious estimate in international banking, takes its toll on this once thriving offshore financial centre.

At the end of last year total assets of the offshore banks stood at \$62.7bn, a record level which marked a good recovery from the low point of \$55.6bn in April 1983.

But in January they fell back again to only \$59bn as end-year window dressing was unwound. That figure was only \$1.4bn higher than that of January, 1983, a far cry from the exponential growth rates of the past.

While few bankers in Bahrain expect their offshore centre to wither away, most agree that it faces a new challenge of adapting to an era in which profits depend not so much on the exploitation of wholesale lending opportunities, but rather on providing financial services.

That means an end to the days in which a bank could expect to prosper with just a limited amount of paid in capital, a few staff, and a telex on which to receive offers of loan business, to all out its balance sheet.

Several factors have combined to produce this new situation. First, and most important for Bahrain, lending opportunities

in Saudi Arabia, on which many offshore units depended, have contracted with the economic downturn and more restrictive approach of the Saudi budget.

The Saudi authorities themselves also seem determined to force the pace of development of their own offshore banks and to limit the internationalisation of their currency.

Withholding tax on interest paid by Saudi borrowers to foreign lenders has begun to be levied, albeit patchily. Banks leading syndicated loans in Saudi currency now also have to obtain permission from the Saudi Arabian Monetary Authority before inviting foreign lenders in. And, earlier this year, SAMBA began to mop up excessive liquidity in the Kingdom by calling for special deposits from local banks.

The amounts involved are not large—about SR 400m a week is now being absorbed—but bankers in Bahrain fear that these steps will eventually lead to a drop in the availability of Saudi currency in the Bahrain market. In turn, that would tend to curb their business opportunities in Saudi Arabia.

At the same time Bahrain has been caught up in the worldwide slowdown of international interbank business. Following the outbreak of the developing country debt crisis in 1983, banks have become much more careful about lending to other banks, particularly in centres where there is no established lender of last resort.

Bahrain has suffered in this respect because many banks from outside the region feel the political and financial risk they are running by placing

Continued on next page

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Communications revolution

WORLD BANKING 19

No bank can afford to lag behind

BANKERS TODAY must feel like survivors of an earthquake faced suddenly by a tidal wave, the "tsunami" which follows a seismic disturbance.

They have only just come to terms with the fact that banking as they know it is changing irrevocably and that much of that change is being driven by advanced technology.

Now they have to face the fact that the technology itself is changing at remarkable speed, offering new business opportunities to those banks able to keep pace but threatening to relegate those that lag behind to the finance industry's second division.

Their response to be frank, has been ragged. Some banks, Citibank is the prime example, boasting aggressively of the \$500m it has invested in advanced electronic technology over the past three years—positively glory in the new possibilities.

Others are more cautious and less assertive, but all are mulling over their strategies, driven by the fear that if they are not to the fore with a novel electronic service others will steal the advantage.

A good example of the speed at which technology is driving banking practice is afforded by electronic corporate cash management.

Two years ago this was the hottest topic in electronic banking, offered by a handful of the bigger U.S. banks—Chemical Bank, Infocash from Chase Manhattan, Citibanking from Citibank, Mars from Morgan Guaranty.

None of the British clearers had an electronic product on offer at the time, yet within 12 months each was firmly in the market. Admittedly, each was

Changes in technology

ALAN CAINE

using a proprietary product tailored to its needs.

Barclays Bank, for example, offers its own version of Chemical Bank's Banklink system, which is run over the largest commercial timesharing network in the world, Geiseco's Mark III. Now it has over 100 customers in 11 countries.

Electronic corporate cash management is just one variation on the common theme for banks and other financial services organisations. It entails exploitation of the "electronic umbilical cord" between the bank and the customer, a development made possible only by the evolution of a new generation of computing hardware and software.

The banks were among the first commercial organisations to make use of computers, and their earliest systems were heavily oriented towards batch processing. There was no real alternative for the computers of the day were simply not up to holding a dialogue with their users—what data-processing experts call "transaction processing."

Their processing systems were mostly bespoke, built by the

bank's own computer specialists with the help of software houses and running on expensive mainframe computers. It was at this stage that IBM planted its flag so firmly on banking territory.

With the emergence of mini-computers, smaller, cheaper but with great processing power, it became possible for individual bank branches to have their own computers for accounting, foreign exchange dealing and the like. Software houses, especially in London, made their reputations by providing the software for these computers. BSI's Midas, Eoskyn's Kapiti and Arbats ABS were the leaders in what was still basically a batch-processing oriented market.

The emergence of the micro-computer, or, more precisely, the professional personal computer, and the development of sophisticated transaction-processing hardware and software changed all that.

Personal computers Now, as one banker said recently: "Our major problem in technology is to understand how to deal with the personal computer."

The pattern that is emerging is this: customers, whether corporate or private, can have access to their files, held on the banks' computers, through a video terminal.

If the video terminal is also a personal computer—that is, if it has "intelligence" or data-processing power—it can be used to handle the information on the customer's files in a variety of ways, enabling each customer to carry out modelling and analysis on his data.

So within two years the emphasis has changed from

corporate cash management taken these days to mean a link from the banks' computers to a simple terminal in a treasurer's office giving daily information on a company's position and exposure worldwide to treasury management, using a personal computer as the terminal and—potentially—a whole range of advanced software tools.

For example, if the customer's terminal is an IBM PC—easily the personal computer of choice for all U.S. Treasury management systems—it is possible to offer the Lotus 1-2-3 package as part of the Treasury system.

Lotus 1-2-3 is one of the most successful U.S. software packages, combining in a single product spreadsheet, file management and graphics capability. It is said that over 70 per cent of IBM PCs in the U.S. have been acquired simply to run this program.

However, these systems are still in the future. Almost all the treasury management systems on offer at present have only software written by their suppliers. One of the most advanced treasury management systems—Bank of America's International Treasurer, for example—monitors a company's international treasury position in terms of foreign exchange exposure, interest exposure and liquidity positions.

It allows the treasurer to evaluate his own performance in covering his foreign exchange positions and in borrowing and depositing funds in the market. It periodically revalues contracts and displays foreign exchange and interest gains and losses.

Citibank offers on its PC a service called "Autoreport," which uses the intelligence built into the personal computer. When a key is pressed it will ring, automatically, each of the branches in which a corporate treasurer may have an account, collect the details, collate the reports and print them out.

The theory is that most corporate treasurers look at the same reports daily and that in practice this can be carried out automatically. It is all a far cry from the balance reporting service printing out on a teletype terminal, but it should not be thought that treasury management is as hot a topic with customers as with the banks.

Most of the enthusiastic users of treasury management services are the largest corporations and the banks themselves, all heavily involved in inter-

national foreign exchange dealing. In the UK, BP and Esso are widely regarded as among the best users of electronic treasury management.

For the smaller companies the advantages are less obvious. Earlier this year Mr. Alan Vosper, assistant treasurer of Chloride Group (turnover \$375m in 1983) complained that the banks paid little heed to the needs of the smaller company and his views found a sympathetic echo in other organisations.

"Electronic umbilicus" For the banks themselves and for their customers, the advent of the "electronic umbilicus" requires a new level of resilience in both hardware and software.

A certain amount of downtime could be tolerated when the banks' computing activities were limited to batch processing. When high-capacity transaction processing is the order of the day, downtime cannot be tolerated at all. This explains the remarkable success of one computer company, Tandem, in banking markets.

Tandem markets a range of computers originally labelled "non-stop" and now more realistically as "fault-tolerant."

Tandem's idea was to create a computer which never stopped running. It did this partly by brute force—doubling up on processors and data paths, "mirroring" the essential memory discs—and partly by extremely clever software techniques which meant that if a Tandem machine was halted by, say, a total power failure, it "degraded gracefully."

In other words, all the data being processed was stored so that when the current was switched on again the system took up from the point of failure without a hitch.

For the banks, used to keeping a second mainframe computer on "warm standby" in case of emergency, it was powerful solution to the problem of staying on the air at all times, and they bought the Tandem "NonStop 16" in hundreds.

It became the first choice for systems integrators developing banking software. An example is Applied Communications (ACI), developers of a package called Base 24 which is the software needed to run a network of on-line automated teller machines.

Another is Logica, the London-based systems company which used Tandem computers as the "nodes" or gateways of

the London Clearing House payments system CHAPS.

But so fast is technology advancing that Tandem is already having to look to its laurels. Fault-tolerant hardware and software is now being offered by other companies, notably Stratus, which began several years later than Tandem, which have been able to take advantage of the most recent advances in microelectronics.

Now ACI offers a version of its ATM-linking software on Stratus computers. It cannot match the sheer capacity of the Tandem equivalent, but it does represent a reasonably low-priced entry into ATM networks for organisations such as building societies.

All the new transaction-based services the banks and others are offering or planning will require a high level of fault-tolerance in the computing hardware and software.

Electronic funds transfer at this point of sale (EFT/POS) or cashless shopping would be impossible without reliable processing and telecommunications.



Advanced communications technology speeds up today's foreign exchange operations; above, a section of the dealing room of Merrill-Lynch

New generation of computer hardware and software

THE NEW generation of computer hardware and software promises sufficient reliability, and most of the developed world is going ahead with plans to make shopping by plastic credit card a reality by the year 2000.

The UK banks are committed to a pilot scheme due to go live in 1986. In the U.S. a myriad of experiments has been run over the past decade or so and some are showing signs of success. They include the Publix supermarket chain in Florida and the Matrix Financial Network in New York, a venture between Manufacturers Hanover Trust and NCR, a computer company with major interests in EFT/POS.

In France experiments are being made with conventional EFT/POS, where a plastic card bearing a magnetic stripe is used in conjunction with a point-of-sale terminal connected through a switched network to the customer's bank, alongside the "clever" card, a French invention which has a potential in many areas apart from cash-

less shopping. This consists of a complete computer sealed into a plastic card no bigger than a conventional credit card. It can be used as an electronic cheque-book; credits can be stored electronically in the card's memory and information read from the card can be used to make a wide range of payments.

Applications It was originally seen as a way of overcoming poor telecommunications, which would have rendered useless the conventional EFT/POS on-line techniques. Now that its broader applications as a personal identification device have become clear, the U.S. armed forces, among others, are showing interest in using it as a way of restricting access to secure areas.

Just as electronics has opened up the banking business to non-banks, so it has opened up the electronic banking business to companies not traditionally associated with banking.

All the banks are now pondering their next generation of banking systems; besides their traditional suppliers of hardware and software there are new names like Hogan Systems, Anacom and now Wang.

Wang is best known as an office automation company. Its banking product Priority was written by an Australian company of the same name and its hopes of success are pinned on the reputation of its computing systems.

Wang's move into a market where nobody would have given it much of a chance five years ago is symbolic of the upheaval in the banking world, where nothing can be taken for granted except that banks in 1984 will be nothing like banks in 1984.

David Ranea, financial banking industry manager for Wang, has put it simply: "All banking systems written so far have been written for the banks of today. What we are aiming at are systems written for the banks of tomorrow."

Bahrain offshore units CONTINUED FROM PREVIOUS PAGE

deposits there has been enhanced by the Iran-Iraq war, and the collapse of Kuwait's unofficial stock market.

A telling way in which this has affected the ability of offshore banks in Bahrain to attract deposits lies in the maturity structure of their liabilities. Almost all the growth in liabilities last year was concentrated at the very short end of the maturity spectrum. Last year, liabilities maturing in periods up to and including one month rose by \$9bn to \$33.9bn; longer term liabilities actually fell by \$1.3bn to \$28.5bn.

This is in marked contrast to 1982 during which growth had been equally shared between the very short term liabilities and longer term liabilities, each of which had recorded increases of some \$4.1bn.

Part of the increase in short term liabilities last year reflected end-year window dressing operations. Some bigger U.S. banks also increasingly passed some of their money market operations through Bahrain, but there is no disguising the message in these figures that smaller banks found it harder to attract longer term deposits,

a situation which is improving slowly in 1984, according to officials at the Bahrain Monetary Institution.

Faced with the stagnation of traditional banking business, offshore units in Bahrain are, however, increasingly turning their attention towards investment banking. United Gulf Bank, for example, is developing portfolio management business. Arab Banking Corporation is becoming increasingly involved in mergers and acquisition business worldwide. Arabian Investment Banking Corporation aims to seek out investment opportunities for wealthy Arabs.

Is your bank between you and a hole in one?

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the world's top ten users).

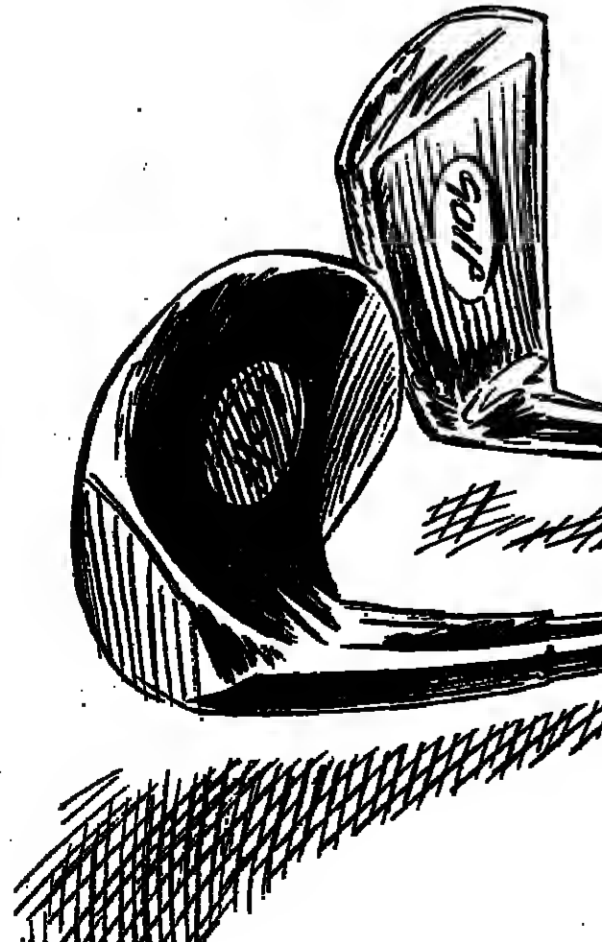
Similarly, we were the first to introduce an automated system which turns round letters of credit in 24 hours. First to link all our branches by computer. First to establish a foreign exchange dealing room.

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The list goes on. And already, major companies in Japan, America and Europe — as well as the Middle

and Far East — have taken advantage of our quite exceptional range of banking services.

To them, it's the equivalent of scoring a hole in one.



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WORLD BANKING 20

Last year brought record profits for some sections of the Nordic banking world. FT correspondents analyse the factors behind these results on this and the following page

Sector more cautious now

THE FURTHER fall in Swedish Central Bank interest rates expected at the beginning of the year has not materialised and the banks are becoming more wary about their prospects for 1984.

Last year the profits came rolling in unprecedented fashion after several lean years, thanks chiefly to the more benign interest rate policy pursued by the Riksbank, the Swedish Central Bank.

The winds of deregulation have been blowing through Swedish financial markets—the banks now enjoy greater freedom in fixing lending interest rates, and the Riksbank has abandoned its long-lived liquidity requirements for the banks—but Swedish bankers still often claim that they are more strictly controlled than any other sector of the Swedish economy.

Interest margins are by far the most decisive factor behind movements in the banks' profitability but the steady fall in interest rates enjoyed by the banks last year has come to a halt during 1983.

Market interest rates did continue to fall during the first part of 1984, but the influence of events in the U.S. has been felt clearly in Swedish financial markets too with the effect that rates have been rising in recent weeks in Sweden.

Leading Swedish banks are no longer so optimistic that the Riksbank will find room to lower its official rates—on the contrary some are forecasting an increase towards the end of the year—and correspondingly hopes for building further on last year's profit bonanza have been dampened.

Last year was a record for the Swedish banks. The commercial banks achieved a 55 per cent rise in aberrating profits compared with a meagre increase of 8 per cent in 1982. Interest earnings, which accounted for 69 per cent of total operating revenues in 1983 compared with 65 per cent in 1982, rose by 37 per cent according to a study made by the Swedish Banking Federation.

For the first time in several years the banks managed to halt the negative trend in their equity assets ratios and capital ratios. The profitability of the Scandinavian Eskandia Bank group (S-E Banken), the largest banking group in Scandinavia, jumped for example by 6.1 percentage points to 23 per cent (the return on equity and reserves), its highest ever. Similar developments were

Sweden

KEYVIN DONE
in Stockholm

reported by S-E Banken's main rivals.

Svenska Handelsbanken, the second largest Swedish banking group, emerged as the country's most profitable bank with the best return on group equity at 23.3 per cent compared with 18.5 per cent in 1982, but S-E Banken did manage to close the gap.

S-E Banken boosted its group operating profit by 62 per cent to SKr 2.3bn, while the operating profit of the parent bank jumped by fully 73 per cent to SKr 1.9bn.

Among other moves towards deregulation the Riksbank last year decided that it would no longer formally regulate interest rates on lending. In practice, this does not mean too much, however, as the Central Bank still only allows insignificant and temporary deviations from the previous average interest rates.

The Central Bank still regulates, too, the volume of the banks' Swedish krona lending and here the guidelines mean that the banking sector is again operating this year under strict controls. The squeeze has been tightened as part of the authorities' fight against inflation and the volume of Swedish krona lending will only be allowed to rise by 4 per cent this year above the 1983 level.

Fee income, too, showed a healthy rise in 1983 reflecting in part the surge in the Swedish stock market. During the period 1981-83, the number of companies listed on the Stockholm Stock Exchange increased from 103 to 150, while from 1980 to 1983 the volume of trading showed a tenfold rise from SKr 7.5bn to SKr 75.8bn. The interest from foreign investors in the Swedish stock

TOP THREE SWEDISH BANKS
(SKr bn)

	Assets 1983	Operating profit 1983	Profitability† 1983	Assets 1982	Operating profit 1982	Profitability† 1982
S-E Banken	162.8	2.3	1.4	23	16.9	18.5
Handelsbanken	141.4	1.9	1.4	23.3	18.5	18.5
FKBanken	141.4	2.9	1.4	19.5	18.5	18.5

† Return on equity and reserves after taxes.

market made it possible to sell SKr 3.7bn worth of Swedish share issues in international markets last year.

Overall, there was a record level of new share issues in the Swedish market with SKr 6.1bn of risk capital entering the market through rights issues and other issues in the market. During the year, 28 companies entered the new OTC market (over-the-counter) which aims at providing small and medium-sized companies with risk capital.

All this activity showed through clearly in the banks' commission earnings, but here too 1984 is proving a more sober experience. There has been a net inflow of Swedish shares back into the domestic market, turnover is down with foreign investors exhibiting less interest in the Swedish market, and by the middle of May the Stockholm share index was showing a rise of only 3 per cent from the beginning of the year compared with rises of 85 per cent in 1982, 36 per cent in 1983 and 58 per cent in 1981.

The move towards greater freedom in Swedish financial markets is also being reflected through the Government's willingness to allow FKBanken, the state-owned commercial bank, to launch its first share issue to private investors.

The state's stake in FKBanken, the third largest of the "big three" Swedish banks is being reduced to around 85 per cent. FKBanken management believes the share issue will finally place it on a more equal competitive footing with its big domestic rivals and will allow it to take part more easily in the restructuring now under way in the Swedish financial sector.

Sweden is fast becoming the last country in Western Europe to open its borders to foreign banking operations, but here too the pressure for change appears irresistible. A Government committee is studying the question as part of overall investigation of the structure of the credit market and a preliminary report is expected as early as this autumn. Mr Kjell-Olof Feldt, the Swedish Finance Minister, said recently in Parliament that the establishment of foreign banks would be a "valuable addition" to the Swedish credit market. The earliest that legislation could be presented to parliament would be spring, 1985.



Commercial offices in the heart of Stockholm: winds of deregulation have been blowing through the Swedish financial markets

Competition intensifies

THE DANISH banks made huge profits last year. The net profits of the big three commercial banks, Danske Bank, Copenhagen Bank and Privatbanken were in each case over 2 per cent of the balance sheet total and these results were not exceptional.

The banks' earnings were derived primarily from gains on share and bond portfolio values, of which about 80 per cent are in the form of unrealised gains.

Under Danish accounting practice, however, both the unrealised and the realised gains are entered into the profit and loss account as the whole of the difference between the market value of the portfolios on the final days of the accounting year.

The total profits of the commercial banks were about Dkr 148bn, made up of a profit of Dkr 15bn on bond portfolios and a loss of Dkr 18bn on operating account. The enormous earnings on bonds gave many of the banks a formidable return on equity capital with Jyske Bank, the fast-growing Jutland-based concern which now ranks as the country's sixth largest commercial bank reporting a return of 97 per cent.

Last year's results have created an intriguing situation in Danish banking. For one thing, last year's profits were to a large extent profits foregone in succeeding years. If bond prices had not soared last year but remained stable the earnings on the bond portfolios would have come in gradually as the bonds approached maturity.

Another important factor is that banks have to pay tax on their earnings at the rate of 40 per cent which is the standard corporate income tax rate.

This is no problem for the banks with short maturity portfolios, and the biggest banks say they will be able to pay this year's heavy taxes out of current income, but not all the banks will be able to meet all the tax demand from current income.

Banks having portfolios with long maturities, one of which is Jyske Bank, may have to sell bonds to raise cash for taxes. In early May, soon after an economic policy compromise in the Folketing (Parliament) had pushed bond prices up,

Denmark

HILARY BARNES
in Copenhagen

there was some substantial selling of bonds by banks, probably, at least in part, with tax demands in mind, although the taxes do not actually fall due until November.

This year the banks cannot expect to make another big killing such as they made in 1983 when average effective interest rates in the bond market plunged from almost 20 per cent at the end of 1982 to just under 3 per cent at the end of 1983. Share prices doubled as well.

If the banks are unlucky and bond prices at the end of this year are lower than at the end of 1983, which few observers expect, some banks would have to report a bottom line figure in red. This emphasises the need for the banks to begin to earn money on operating account. They will gain some relief this year from a decline in the very large loss provisions they have had to make over the past three or four years. With the economy picking up, especially in the corporate sector, provisions should be significantly lower.

But the competition for earnings is fierce, and it is widely expected that within the next year or so there will be some major mergers, both among the commercial banks and the savings banks. Moreover, the mergers may well involve some of the larger banks in both sectors. These changes could cause an interesting reshuffle in the banking order at the top of the Danish banking world, but so far there have been no signs that any merger negotiations are actually under way.

FINANCIAL TIMES

WORLD BANKING

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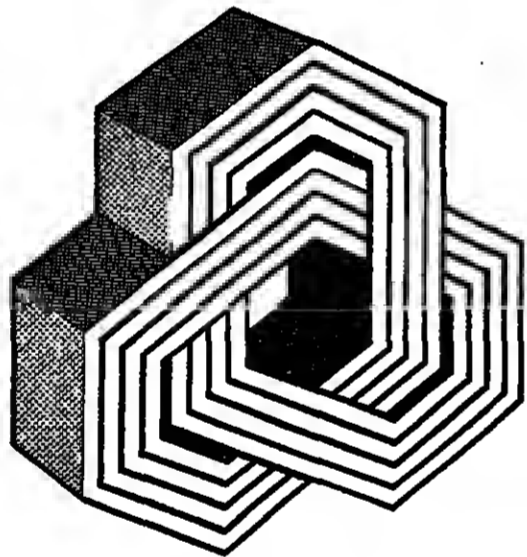
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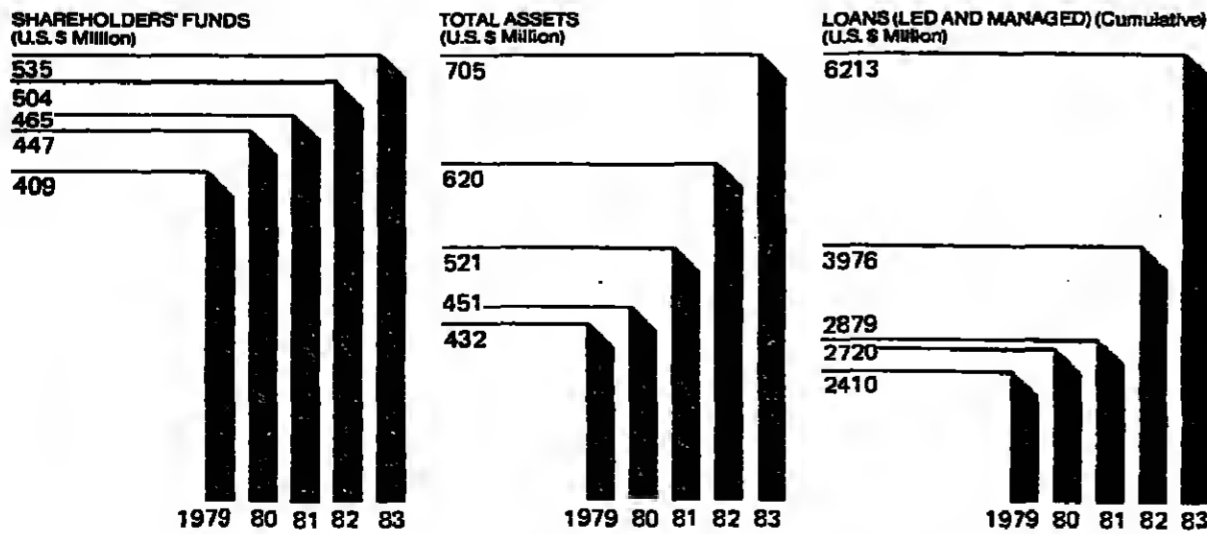
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APICORP 1983 RESULTS

HIGHLIGHTS	
Authorised Capital	US \$ 1,200.0 million
Shareholders' Funds	\$ 535.3 m
Total assets	\$ 705.3 m
Loans	\$ 326.2 m
Equity Participations	\$ 46.1 m
Treasury Investments	\$ 279.9 m
Deposits from Banks	\$ 144.3 m
Net Profit	\$ 51.6 m



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Nordic nations

WORLD BANKING 21

Moves to ease further interest levels

Norway

RAY GESTER
in Oslo

AFTER several poor years the Norwegian banks sharply improved their profitability in 1983. Commercial bank operating profits, as a proportion of total assets, averaged 1.7 per cent, compared with 1.31 per cent in 1981 and 1982, and only 1.15 per cent in 1980 (see graph).

The improved results reflected several factors. Most important was the fall in money market rates, which cut the cost of the banks' own borrowing. Their borrowing needs were down on a year earlier, in any event, because primary reserve requirements were lower than in 1982. These developments led to a marked rise in net interest earnings—the banks' most important source of income.

This month the Finance Ministry announced moves to encourage a further easing of interest levels, thus continuing the trend that began early last year. A new long-term Treasury loan will pay only 12 per cent

interest—one-quarter of a percentage point, down on the rate offered for the last such loan.

Moreover, the interest payable on Treasury Bills is being cut by one half of a percentage point. The aim is to hold money market rates within the 12.5 per cent to 13 per cent range, compared with 13-13.5 per cent previously.

The Ministry expects the banks to pass the resulting savings in interest costs on to their corporate customers in the form of lower charges on overdrafts and short-term advances and lower interest rates on medium, long and long-term loans for investment purposes. Interest rates on housing loans, and loans to finance private consumption, will not have to be cut.

This month also brought a further liberalisation of credit policy along lines recommended by the bank of Norway. Regulation of lending by finance companies is to end and with it the curbs on bank guarantees of market loans. The 1984 lending ceiling for the commercial and saving banks are being raised by a total of Nkr 2bn to Nkr 17bn. Lending quotas for some of the state banks have also been increased. These changes were announced on May 11, when the Govern-

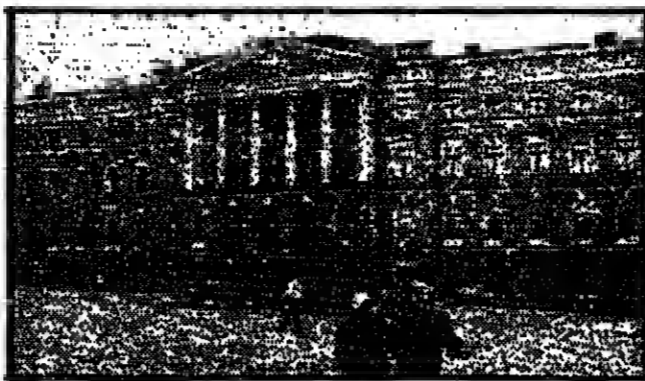
ment tabled its revised National Budget for the year.

There was, however, no reduction in the primary reserve requirement imposed on savings and commercial banks. This remains at 7 per cent, compared with only 4 per cent through much of last year. It has been twice increased this year, from 4 per cent to 5 per cent on January 1, and by a further two percentage points, to 7 per cent, from March 1.

The second increase was a reaction to the Nkr 9,400 expansion in bank lending which took place during the first quarter, though much of this was simply a reaction to the lifting, on January 1, of direct controls on bank lending.

Borrowers who would previously have sought finance on the unregulated market were again able to borrow from the banks. As the Bank of Norway has pointed out, there is no evidence that the first-quarter bank lending surge has created inflationary pressures in the economy.

If last year's better profit trend can be sustained, the banks will not be forced to float new share issues so often as during the past few years. These frequent capital increases have been necessary—in the absence of adequate profits—to maintain the required ratio between equity and total assets.



The Finnish Government offices in Helsinki: the economy is well into an upswing

Last year Norway's "Big Three" (Den Norske Creditbank, Christiania Bank and Bergen Bank) floated issues with a total par value of over Nkr 800m.

Competition among the banks has sharpened of late, stimulated by the loosening of controls in the banking sector. Regulations restricting the establishment of new branches have been liberalised. For instance, the banks are to be given greater freedom to fill gaps in their branch networks. This is particularly important to the "Big Three," which—unlike the smaller regional banks—compete with one another nationally.

The acquisition of new, strategically placed branches has been an important incentive in mergers and acquisitions involving the trio. One example is Christiania Bank's recent take-over of the northern-based Fiskernes Bank.

The more liberal climate has

also begun a newswoman. In March the Government formally granted permission for the establishment of a new domestic commercial bank—Oslobanken. The first new Norwegian bank in 37 years, Oslobanken intends to specialise in wholesale banking, making higher charges than usual for retail services such as cheque-cashing. Its first share issue last month (for Nkr 60m) was almost seven times oversubscribed.

On the horizon is the prospect of foreign competition. A Bill that will permit foreign banks to set up subsidiaries in Norway is expected to receive Storting (Parliamentary) approval before the summer recess, and the first of them could open for business early next year.

Initially, only a limited number are likely to be allowed. Some will possibly be joint ventures between foreigners and Norwegian banks.

Signs of new vigour

Finland

LANCE KEYWORD
in Helsinki

VIRTUALLY EVERY billboard along the main streets of Helsinki, and most of the available space on the city trams and buses, are advertising, of all things, the new share issues of the big two commercial banks, Kansallis-Osake-Pankki (KOP) and Union Bank of Finland (UBF).

It is a sign of the times: Finnish banking is no longer the staid business it used to be. As if to emphasise this, the past year has also seen a number of changes in the Bank of Finland's regulations.

The Helsinki Stock Exchange, too, is experiencing a burst of vigorous activity, partly because of several new flotations, and partly because of an upsurge of foreign interest in acquiring stock in Finnish companies. Changes in the financial market have been in the offing for some time. Now they are coming thick and fast, and there will certainly be more as the year advances.

At the same time, the Finnish economy is well into an upswing after two years of recession, and this is likely to continue for a couple of years. In accordance with its usual anti-inflationary policy during the rising phase of the cycle, the Bank of Finland has turned the money market screws and will tighten them further.

The process started in the latter half of 1983 and the banks complain that it affected their profit margins in the past fiscal year. Their annual

reports record "a satisfactory year in view of the circumstances." By contrast, the two preceding years were described as "good."

The combined results of all the commercial banks in 1983 showed a 16.5 per cent increase in net earnings to Fm 302m (about £37m). But interest earnings were down one per cent to Fm 1.7bn and operating margins narrowed by 6.5 per cent to Fm 971.7m.

The base (discount) interest rate has been maintained unchanged at 9.5 per cent since July 1983. Now that most of the new wage contracts have been signed and are not as inflationary as was once feared, no increase is likely.

Indeed, the latest estimates are that the government's target of 6 per cent inflation this year (against 8.6 per cent in 1983) might be met, and industry is calling for a reduction in the base rate to help the heavily debt-ridden corporate sector. But, while demand is strong and growing stronger, this looks unlikely.

Under a voluntary cartel sys-

tem (which may well be dissolved in September this year), all bank deposit rates have been pegged to the base interest rate and lending rates have been strictly controlled by the central bank on the same basis. But an uncontrolled short-term money market has developed alongside the controlled market.

Another cartel was established which limited the rates on these funds to 15 per cent, but it collapsed in April when the central bank allowed the three foreign banks established in Finland unlimited access to its call money market where the rate was 17 per cent.

Now the call money rate has been reduced to 16.5 per cent and the "free" money market rate has risen to about the same level. This perhaps enables the central bank to keep a closer eye on the free market.

After the abolition in January of the old quota system of central bank financing and various other changes, the two sharp instruments of control retained by the Bank of Finland are the call money market, the sole source of central bank financing available to the banks, and the cash reserve deposit scheme.

The latter has been used increasingly of late. In April the cash reserve deposit requirement was raised to 5.6 per cent. Under the agreement between the Bank of Finland and the commercial banks, the maximum obligation is 8 per cent.

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WORLD BANKING 22

Vote ends uncertainty over secrecy

FOR SWISS bankers a period of uncertainty has just ended. Last weekend the electorate voted to reject the so-called Banking Motion of the Social Democrats and the trade union movement.

Conceived in the general outrage at the Chiasso scandal of 1977, when a good SwFr 2bn of clients' money was misappropriated by local branch managers, the referendum proposal aimed at countering what its backers saw as "systematic abuses" by or involving Swiss banks.

It was always unlikely that the motion would be accepted by the necessary double majority of popular and cantonal votes. Left-wing backing for a referendum usually does more harm than good in Switzerland, quite apart from which the average Swiss approves of the banks rather than otherwise.

Nevertheless, bankers will be relieved finally to know that the long period of suspense is over.

While the proposal categorically guaranteed the upholding of banking secrecy, it did a great deal to weaken this as a general principle.

Among the constitutional amendments embodied in the motion were those laying down that banks, finance companies and the like would "be obliged to give information to authorities and courts in fiscal and criminal cases" and that Switzerland should as a rule support foreign countries in their criminal investigations—specifically including those involving fiscal and currency offences.

At the same time, banks were called upon to improve their reporting procedures, while rules were foreseen to limit the banks' influence on outside companies and to introduce a scheme to insure clients' deposits. All in all, it is understandable that the bankers were nervous at the mere possibility of the motion being approved.

Not the least of their fears has been what the Swiss Bankers' Association calls a "loss of confidence on the part of foreign customers and a

consequent exodus of funds with negative results for the domestic Swiss economy.

In fact, the Chiasso affair and the Damocles sword of the Banking Motion have already brought out a number of moves to tighten up control over the banking system.

Within three months of the Chiasso disclosures, the Swiss National Bank had brought about an ostensibly "voluntary" agreement with the Bankers' Association to improve the identification of clients' funds and counter bank action to aid and abet the flow of fugitive money from abroad; to date, at least 13 banks have been fined—two of them sums of SwFr 500,000 each—for contravention of this agreement.

The Swiss Banking Commission has also been taking a much stronger line as the official "watchdog" authority, having among other things called on over 30 banks to increase their provisions against sovereign risk.

The generally more critical line on bank control has also been reflected in the draft for the revised Banking Act. Among deposit insurance as foreseen by the Banking Motion.

during 1983—to little short of SwFr 500bn for 71 reporting banks—reflecting a real growth in business as well as the effect of a stronger dollar.

Initial indications are that assets have risen again in the first quarter of 1984 despite a slight drop in the dollar rate.

The first few quarterly reports for January-March, 1984, suggest that the favourable conditions are continuing. Bank Vontobel, which has just published Switzerland's first-ever corporate profits forecast, already expects that listed banks will raise their earnings by 15 per cent again this year.

The three biggest banks (UBS, SBC and Credit Suisse) have themselves said they expect another very good year.

Nevertheless, the Commission is watching credit limits closely and has, as already stated, acted to have coverage ratios increased.

Swiss bankers will, however, still have to set aside large sums as provision against risks. The Banking Commission admits that Switzerland is in a good position in respect of sovereign risks in comparison with some other countries and believes that overall exposure declined in 1983; at the end of 1982, Swiss banks had had a total exposure of SwFr 23bn in 60 "problem countries" against 60 per cent of this in Latin America.

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Switzerland

JOHN WICKS
in Zurich

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SWITZERLAND'S BIG FIVE BANKS

(Figures in SwFr m)

Bank	Balance-sheet total	Due from banks	Advances to customers	Due to banks	Customers' deposits	Net profits	Net profit change (%)						
	1982	1983	1982	1983	1982	1983	1982						
Union Bank of Switzerland, Zurich	106,353	115,142	30,917	34,216	47,042	49,047	25,182	23,155	67,393	72,449	437.5	506.0	+13.6
Swiss Bank Corporation, Basle	96,816	105,156	11,783	27,504	39,562	44,212	22,103	23,123	65,294	71,349	369.5	429.0	+14.1
Credit Suisse Zurich	73,497	77,268	16,264	18,691	36,171	35,445	17,412	18,467	47,811	56,559	303.0	351.6	+16.0
Swiss Volksbank, Bern	17,737	20,646	2,478	2,498	14,026	14,896	1,943	1,617	16,151	17,414	50.9	62.2	+22.2
Bank Leu, Zurich	9,346	10,445	3,443	3,851	4,741	5,336	3,958	4,600	3,649	3,163	31.7	35.0	+10.3

Competition cuts into profit margins

KONSOLIDIERUNG (Consolidation) is the watchword for Austrian financial institutions this year.

After an uneven year in 1983, when the banks recorded some strengthening of their foreign business but a lacklustre home performance due in part to slower overall economic growth, Austrian bankers are cautious about prospects for 1984.

For the first time in many years, the average volume growth for the banks fell to single figures in 1983 compared with growth rates of 12-15 per cent in earlier years. The downward trend should be confirmed this year.

Several factors are responsible. Slower growth was inevitable after the strong expansionary impetus provided by the changes introduced in the 1978 Banking Act, which allowed all banking institutions to turn themselves into universal banks on the West German or Swiss model. The formerly highly sectionalised banking community rushed into new areas of business. Many new branches were opened, starting a period of intense competition for domestic customers. More banks also ventured into foreign business for the first time.

That impetus has now dampened and in practice the various groups—commercial banks, savings banks and other specialised institutions serving farmers and small businesses—still broadly retain their original market base and share.

But the strong competition cut into the Austrian banks' traditionally low profit margins. In the foreseeable future growth rates for the banks are likely to remain at about 6-8 per cent.

Austria's economic performance continues to compare favourably with that of many other industrialised countries. Inflation is still relatively low, currently running at around 5.5

per cent—up from 3.3 per cent in 1983—while the estimated economic growth rate this year has been revised upward from 1.5 per cent to 2.5 per cent partly as a result of strong exports.

Consumer demand is still high although some companies say they are witnessing the first signs of a slackening of demand. The financial institutions are now waiting to see whether the success of many medium-sized companies last year will lead to a greater demand for credits or whether they will draw on their own resources for investment.

Last year a poor investment climate, with uncertainty about the new Government's economic policy, resulted in a low credit demand from industry. End-of-year figures for loans to industry fell 3 per cent. Total domestic lending remained below average and would have fallen much more but for a high demand for loans from public institutions.

Public-sector and Government borrowing grew by about 50 per cent in 1983. Although the banks are hoping for a slight improvement in demand for credits this year the uncertainty remains.

The major banks have continued their steady expansion of foreign business. Creditanstalt Bankverein retains its lead, with foreign business accounting for nearly 50 per cent of its balance sheet. Oesterreichische Landesbank and Girozentrale follows with 33 per cent and 30 per cent

respectively. With more foreign business last year, the banks substantially increased their provisions against international lending risk as well as domestic risk.

Among the more negative features last year was the stagnation of savings accounts, attributed to the introduction of a 7.5 per cent tax on interest on savings deposits and bonds. This discouraged savings and encouraged consumption, which showed an especially strong increase at the end of last year in anticipation of new higher

Austria

PATRICK BLUM
in Vienna

rates of Value Added Tax taking effect on January 1 this year.

The tax on interest was originally devised to impose some form of taxation on the anonymous savings accounts which are tolerated by Austrian law. That anonymity was served by the banks deducting the tax at source. But some bankers fear that the introduction of the tax may result in a longer-term propensity to spend more and save less.

Indications so far this year suggest that savings may be increasing slightly, although still falling short of the levels recorded in earlier years. More worrying for the banks is the potential impact of a recently published court ruling which re-interpreted rules on

access to files giving tax inspectors greater access to information from businesses and banks.

This ruling has caused concern among financial institutions, which claim that it sets a precedent that could undermine the principle of banking secrecy.

Banking secrecy and anonymity are protected by Austrian civil and criminal law. Numbered accounts and anonymous accounts are allowed and widely used. Disclosing information about an account is an offence and access by non-bank officials is strictly controlled and limited.

Discussions are now under way between the banks, lawyers and the Finance Ministry to find ways to cancel the ruling, which some bankers claim could discourage people from placing their money in Austria.

The bond market had a near-record year in 1983 and provided one of the brighter spots on the domestic scene. The banks also had some success with the participation certificates introduced two years ago. The money raised by these cer-

tificates is invested in small industrial enterprises.

Individual investors are encouraged to subscribe by favourable tax concessions. More than Sch 2bn of these have been sold, providing a welcome boost to bank income from fees.

Also on the positive side, Austrian banks were able to reduce further the share of operating costs in their balance sheets. According to a recent OECD study on costs and margins in banking in OECD countries, the Austrian banks rank among the best—second only to Japanese banks—in keeping their operating costs low.

This can be explained by the keen domestic competition, which drives the banks constantly to improve their efficiency; the growth of foreign business, which is proportionately less costly; the high degree of electronic accounting and, paradoxically in view of the strong competition, the widespread co-operation between the banks in providing joint services such as the pooled cash dispensing system which operates throughout Austria.

GROWTH OF THE AUSTRIAN BANKS

(Millions of Schillings at the end of period)

	Total Assets	Foreign Assets	Liabilities
1980	1,858,724	314,473	362,368
1981	2,120,677	382,745	426,281
1982	2,587,483	454,067	478,810
March 1984	2,568,657	558,902	571,877

Despondent view of cost increases

Greece

ANDRIANA IERODIACONOU
in Athens

"WHAT PAY increases are we going to have to pay this year? Haven't we had enough? Let's check. What's the point? However outrageous union demands are, we'll have to meet them," the manager of one Greek private commercial bank said recently.

His comment was typical of the despondency afflicting the Greek private commercial banks as they struggle to preserve shrinking profit margins against the odds of rising labour costs, tight monetary policies and declining private deposits.

Commercial banks account for just 10 per cent of Greece's banking business. Foreign banks represent about 15 per cent while the lion's share is held by the state-controlled National Bank of Greece and the Commercial Bank Group.

Greek private bankers blame many of their problems on the state banking system. "Think of us as tiny sardines thrown into a tank with piranha," said one. "State banks have one enormous advantage over us—they don't have to worry about profits."

This fact has enabled the Government in the past two years to allow wage increases for political reasons without having to count the economic cost.

Salaries have been roughly pegged to Greece's 20 per cent annual rate of inflation since 1982, while such changes as the extension of workers' paid leave from two to four weeks a year have made necessary the hiring of additional staff.

Strict restrictions on sacking staff make it impossible to "trim the fat," bankers say. Operating costs have also gone up because of public utility rate increases. Charges for computer terminal telephone lines, for example, recently quadrupled.

Another problem is the complex system of reserve requirements and rebates applied to bank credits since the mid-1980s. This ties up over 70 per cent of banks' deposits in Treasury bills or other reserves.

This is coupled with an intricate web of credit restrictions designed to channel funds to preferred sectors of the economy. Bankers say recent measures to liberalise the tangle of over 100 interest rates applied in the past have only made a small dent in the system.

"The degree of freedom to define our own lending portfolios is virtually nil," one banker commented. "We just choose between Mr Ylanius and Mr Petrus within the given restrictions."

Against this background, banks have had to cope with declining private deposits. In 1983 these reached \$327m compared with a target of \$400m, as negative real interest rates

relative to the 20 per cent inflation acted as a strong disincentive.

Commercial bank lending to the private sector increased by less than 15 per cent, compared to a 20 per cent target, a symptom of poor long-term loan demand during Greece's current investment slump.

One innovation last year was the opening of foreign exchange accounts with foreign exchange interest rates and withdrawal rights by Greek residents, which led to the opening of some \$120m in deposits with commercial banks.

Yield

For 1984, the Government has raised savings deposit interest rates by 1.5 per cent to 15 per cent and increased the yield on treasury bills by 2.75 per cent to 17.5 per cent for three-month bills and 17.75 per cent for six-month bills.

But lending rates have remained frozen and the Government has remained set on a tighter monetary policy.

The main thing is that we don't see an end to the squeeze in liquidity," said a banker. "We are living on 30 per cent of our deposits, which aren't growing significantly. We have to survive by being lean and hungry and serving as all things to all borrowing men."

For the 23 foreign banks with branches in Greece, however, the overriding problem is a continuing pitched battle with OTOE, the powerful Federation of Greek Bank Workers.

Since spring last year the radical leadership of OTOE has launched a campaign against foreign banks with two aims: to bring all foreign bank employees under its own union umbrella; and, that done, to establish employee participation in the banks' decision-making on all levels, including credit policy.

OTOE is trying to achieve its first aim by demanding that all foreign bank employees—who number about 3,000—transfer from their present non-union-controlled state pension fund to a small private fund which stipulates OTOE membership as a precondition for joining.

It is reported that OTOE has linked both these claims to giving its approval to the 1984 collective wage agreement in the banking sector. Foreign bankers fear that the Government may give in to OTOE's demands in the light of the European elections on June 17.

The two-year-old Socialist Government led by Dr Andreas Papandreu, is naturally anxious not to annoy the unions in the pre-election period.

Foreign bankers say they are contemplating mass action if OTOE presses its demands. But so far they are not talking about a mass exodus from Greece.

"Most of us are prepared to stay on and fight," one foreign banker said in Athens. "What is certain is that the climate is discouraging new banks from setting up shop in Greece. Swiss, German, American and Japanese banks have come, taken one look, and gone."

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Europe

WORLD BANKING 23

Marathon crisis may cost \$6bn to sort out

SPANISH MOVES to extradite Sr Jose Maria Ruiz-Mateos from West Germany, where he was detained on April 25—a year after state prosecutors in Madrid filed charges against him of currency and other offences—mark the last act of a marathon banking crisis.

Sr Ruiz-Mateos, founder and—before the Socialist Government came in and expropriated him in February last year—chairman and chief shareholder of Rumasa, Spain's largest private-sector holding company, controlled 20 banks.

With the addition of this group, almost half the total of Spanish banks in existence in 1977 have run into serious difficulties—about 50. There is no longer even an exact count, since it has already happened that a bank has foundered, been rescued and foundered again with its rescuer.

The crisis reached its climax with three victims each outranking in importance all that had gone before—Banca Catalana, Spain's last full-scale regional bank, which had to be salvaged in 1982; the prestige Banco Urquijo, the leading industrial bank, which had to be taken over with official aid, and Rumasa, seized in extremis by the government.

Altogether the crisis, the worst in Spain and one of the worst of any Western country in recent years, has hit about a fifth of the banking system. The final figure required to sort it out is estimated to be close to a 13-digit peseta sum—in the order of \$6bn or more.

The troubled banks have mostly been absorbed by more solid competitors, including five by foreign banks, the last being Rumasa's flagship Banco Atlantico, awarded to a consortium headed by Arab-Bank Corporation.

The Deposit Guarantee Fund—the bank hospital supported by all the banks, according to their deposits, and by the Bank of Spain—now has no more banks on its hands except for the remainder of the Rumasa banking division, which it has been charged with administering, and a collection of assets left behind by the banks which have passed through.

Sr Jose Ramon Alvarez Roldan, who has been Spain's banking adviser throughout the crisis, reaches the end of his mandate this summer confident that no further disasters are imminent of five turbulent years has been to concentrate the concentration of banking in Spain. The "Big Seven" now control a total of 50 banks, compared with 29 in 1976, and account for about 80 per cent of overall bank deposits.

Fierce competition

However, competition remains fierce. Most of the banks have one or more subsidiaries which have been set back on their feet by the Deposit Guarantee Fund. Up to now the general rule—which does not apply to the Rumasa banks—has been to exempt these banks for several years from obligatory deposits and credit allocations, allowing them to invest these funds more profitably and thereby enabling them to offer highly competitive services to investors.

This complicating factor contributes to the big banks' inability to operate an effective cartel.

Far from being afraid, as the Franco regime was, of further concentration between the major banks themselves, Socialist ministers would favour new mergers to give Spain a

Spain

DAVID WHITE
in Madrid

more forceful presence in international banking.

However, the personality mix on the Spanish banking scene limits the possibilities for new alliances. Banco Exterior, the number eight bank, is out on its own because it is a majority state-controlled. The smallest of the big seven, Banco de Santander and Banco Popular, are not considered to be in the marriage market.

The two Basque-origin banks, Vizcaya (which now has Catalana under its wing) and Bilbao are no more likely to play on the same side than the two Basque football teams Athletic de Bilbao and Real Sociedad. Banco Hispano-Americano has enough on its hands following the takeover of Bankunion and Urquijo, now joined together as Banco Urquijo-Union, and the gloomy giants, Banco Central and Banesto are ancient rivals.

Close collaboration

Nevertheless, the main banks do collaborate closely in their dealings with the government. The main issues recently have been proposals for ensuring the reprivatisation, in Spanish hands, of the 17 other Rumasa banks currently in state ownership (which have more than 1,000 branches), and for taking up the public debt issue which the government plans to fill the huge gap in Rumasa's books. This is put at up to £14,000bn. While the spring of bank collapses has come in a halt, and agreement has finally been reached on a complex financial restructuring of the country's biggest private industrial group, Explosivos Rio Tinto, fresh burdens have been placed on the banking system: Rumasa, the government's \$6bn plan for streamlining lame duck industries, and above all the historically high public sector deficit, which business circles fear will be more than 4.5 per cent of GNP projected by the government.

The combined compulsory deposit requirements and compulsory credit allocations imposed in commercial banks have been raised to a point where they cover half their total deposits, and the base on which they are calculated has been extended to take in new quasi-instruments. These instruments have been part of the raison d'être of the more dynamic foreign banks which have come into Spain in the past four or five years.

Sr Miguel Boyer, the finance minister, has said he favours dismantling the compulsory quotas "in the future, when there is no crisis." But this presupposes success in bringing down the public sector's financing needs.

Officials now considering requests from seven overseas banks. Doors open to foreign institutions

THE Socialist-Social Democrat coalition of Sr Mario Soares has finally done what other governments had put off.

In February legislation was enacted permitting new banks, foreign or domestic, to open in Portugal after nine years in which eight nationalised banks and three old-established foreigners have enjoyed a closed shop.

So far, eight institutions have presented formal requests to be allowed to open up in Portugal. Seven are foreign—Chase Manhattan Bank, Citibank, Manufacturers Hanover Trust, Banque Nationale de Paris, Paribas, Societe Generale de Banque (Belgium) and the Bank of Credit and Commerce International.

This is more than the four or five foreign banks which the authorities deem an acceptable number for the first stage of liberalisation. No one at the moment would care to guess who will be told yes and who will be held over for another occasion.

The example of Spain, whose liberalisation attracted a spate of foreign banks, looms large in the minds of senior financial officials.

According to the new law, the Bank of Portugal has 120 days from the date of application to consider requests and to refer to the Prime Minister and Finance Minister—who will sign authorisations.

The first applications began in March. Would-be foreign branch openers have been struggling to provide notarised authenticated translations of their directors' biographies, shareholder lists, authorisations, (if applicable) from the authorities of their countries of origin and other required information. It will be July at least before any authorisations come through and probably several months thereafter before the first new foreign banks in Lisbon open their doors to customers.

Several other foreign banks are interested in principle in a branch in Portugal, but at taking their time before laying down an original capital of £2.5bn—\$1.2bn—and are watching how the competition fares.

Meanwhile, a Portuguese institution with strong foreign connections, the Sociedade Portuguesa de Investimentos (SPI), has also applied for permission—in its case to become an investment bank. Launched in October 1981 under a law allowing para-banking concerns such as investment companies, leasing companies and regional development companies to be formed, SPI has about 100 small Portuguese shareholders and a strong showing of international investors, including the International Finance Corporation, Credit Lyonnais, Union de Banque Suisse, DEG (Deutsche

Entwicklung Gesellschaft) and Britain's Investment for Industry among its partners.

Its first two years of operation allowed SPI—and other investment companies that followed suit, MDM (Morgan Deutsche Mello) and Eurofinanca (Banque Nationale de Paris and the Banco de Fomento Nacional)—to fill notable gaps in Portuguese financing.

Portugal

DIANA SMITH
in Lisbon

Demand for the services of investment and leasing companies, which have foreign shareholders, has been buoyant. Their performance has been dynamic too. The Portuguese have traditionally been slow in repayment and this has plagued leasing companies. Now customers are being educated into paying faster.

These companies' strong performance is an encouraging sign that given efficient and disciplined tools the Portuguese market can diversify and modernise. A newer entry on the scene, concentrating on trading in bonds and other paper,

has added more diversification. This month the Companhia de Investimento e Servicos Financieiros, where Lloyds and Sumitomo hold shares, makes its official debut.

The nationalised banks are hamstrung by tough credit ceilings, continued overmanning and slow mechanisation. Their future is under study and will be determined when the second stage of the Soares Government economic recovery programme comes in to force later this year.

Officials hint at several mergers—a prospect that disarms stronger banks who dread absorbing weaker vessels and thousands of workers. But denationalisation is not possible under present laws and mergers seem the only way of streamlining the system. There is an innate tension between younger or more energetic managers in the nationalised banks, who try to run operations like competitive banks and a large doggedly-bureaucratic layer which resists the notion of modern, diversified banking.

Portugal is struggling to shake off four decades of financial overcentralisation and backwardness and one decade of the aftermath of a brief attempt to enforce state capitalism on a Western nation. It takes time to cure conditioned reflexes caused by such strictures.

The seven Comecon countries improved their hard currency trade balances from \$8bn in 1982 to \$9.38bn in 1983

Shrinking indebtedness to West

Eastern Europe

DAVID BUCHAN

IT IS, by now, a commonplace that generally the Soviet Union and Eastern Europe appear better leading risks than they did one or two years ago.

This improvement is both relative to the huge pile of debt in Latin America and elsewhere in the world and absolute, in the sense that the Soviet Union and its six East European partners in Comecon have further reduced their indebtedness to the West.

Net hard currency debt of these seven countries fell a further \$6.6bn last year, to a level of \$64.5bn, according to the Vienna Institute for Comparative Economic Studies.

Half of this reduction is simply the book-keeping effect of dollar appreciation, making the non-dollar denominated liabilities of Comecon appear less in dollar terms.

But the other half of the improvement is real—the result of the seven Comecon countries improving their hard currency trade balances from \$8bn in 1982 to \$9.38bn in 1983 and a comparable improvement in current account surplus from \$4.5bn to \$8.7bn.

Selective lending to the region has now resumed, with the Soviet Union, Hungary, East Germany, Czechoslovakia all getting some new medium-term Western finance in the past year. The difference this time around is that the caution is more on the side of Eastern borrowers who had their fingers burnt in the 1981-82 credit crunch than of Western lenders who would like to exploit the improvement in Eastern external finances.

This is particularly true of the Soviet Union and its two closest allies, Bulgaria and Czechoslovakia.

With the lowest debt ratios in the region, this conservative trio is in the happy position of being able to let domestic developments determine foreign borrowing, rather than the other way around.

Hungary and East Germany also want to keep a lid on their debt exposure to the West, but they both have relatively high levels of debt to service and have been able to borrow more to cover this—Hungary through drawing on International Monetary Fund and World Bank resources (which, in turn, has reopened its commercial credit channels) and East Germany through the financial spin-off from its political relationship with West Germany.

Polish logjam

Even the three casualty cases, Poland, Romania and Yugoslavia, are now in slightly better shape. Poland is still in a logjam with Western governments over the nearly \$17bn (over half total Polish debt) which it owes them.

But its relations with Western commercial banks have been put on a nearly normal basis by the recent agreement to reschedule all payments due on Poland's unguaranteed debt until 1988, end to grant Poland short-term credit facilities this year and next up to \$700m.

Romania has avoided a further rescheduling of its debts this year. Its external position was evidently comfortable enough this year for it to forgo drawing on a final \$285m tranche of its IMF credit, because Bucharest did not want to bother to meet further IMF policy conditions.

Yugoslavia is still struggling

with its large debt burden in annual rescheduling exercises (the 1984 one has been completed). It is proving slower to adjust than the Comecon countries, partly because it is a weaker, more decentralised government and banking system than they do. But precisely for the reason that it is non-aligned and outside Comecon, its creditors have gone to greater lengths to accommodate Yugoslavia, with special Western government aid in 1983 and a second IMF standby credit in 1984.

Obviously, Western lending to the East does not take place in general key factors, among them the export earnings from sales of Soviet energy and East European manufactured goods to the West.

The Soviet Union may have hit a plateau in its energy exports which account for nearly 80 per cent of total export earnings. The West European market for its gas is, for the present, the Soviet Union for domestic output of oil is stagnating and Soviet oil exports only sustained by increased amounts of re-rolled Middle East oil taken in barter for Soviet arms.

Soviet oil exports

The East Europeans, for their part, are likely to find that their sharp cutbacks in investment

NET DEBT IN \$ BN

	1982	1983
	End	End
Bulgaria	1.9	1.5
Czechoslovakia	3.4	3.0
East Germany	10.4	9.2
Hungary	6.4	6.2
Poland	25.0	23.9
Romania	9.4	8.0
Soviet Union*	10.6	7.9

* Excludes Comecon bank debt
Source: Vienna Institute for Comparative Economic Studies.

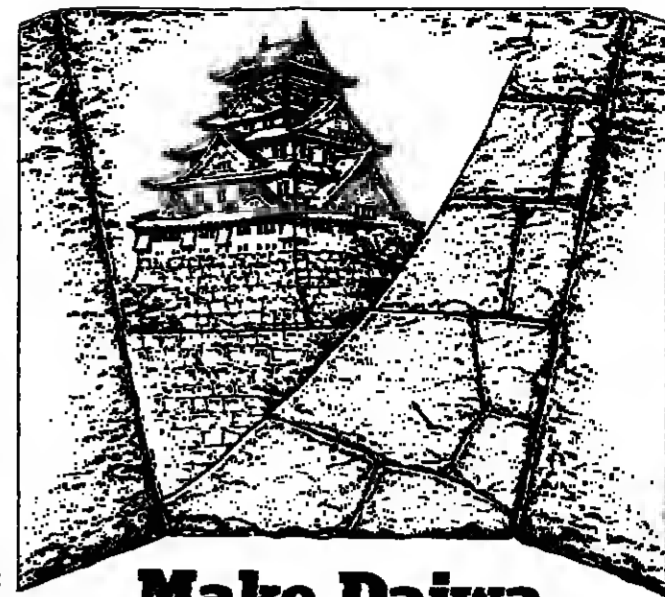
during 1981-82 will damage their export competitiveness by postponing needed modernisation of industry. In these circumstances, the only way the East can buy more Western goods is on Western credit.

But the new financial conservatism of Comecon planners towards the West is likely to get a powerful political boost next month when Soviet bloc party leaders hold their first summit meeting on Comecon business for 13 years.

This long-overdue meeting can be expected to produce a call for greater economic integration inside Comecon, couched as a political riposte to recent Western sanctions and current Western attempts to tighten controls on militarily-sensitive exports.

Better trading arrangements inside Comecon would probably stem for a time at least the growth in East-West trade. This, however, begs the question of whether better trading arrangements are possible without the creation of a private multilateral currency in Comecon to supplant the "transferable rouble" (which despite its name is only a unit of account in bilateral barter deals and is not a transferable means of settlement).

In the present absence of a multilateral currency, the Western convertible currencies which Comecon has acquired through trading with or borrowing from the West have proved increasingly useful. Comecon countries happily accept hard currency as payment in their dealings with each other, and some countries do very well out of this.



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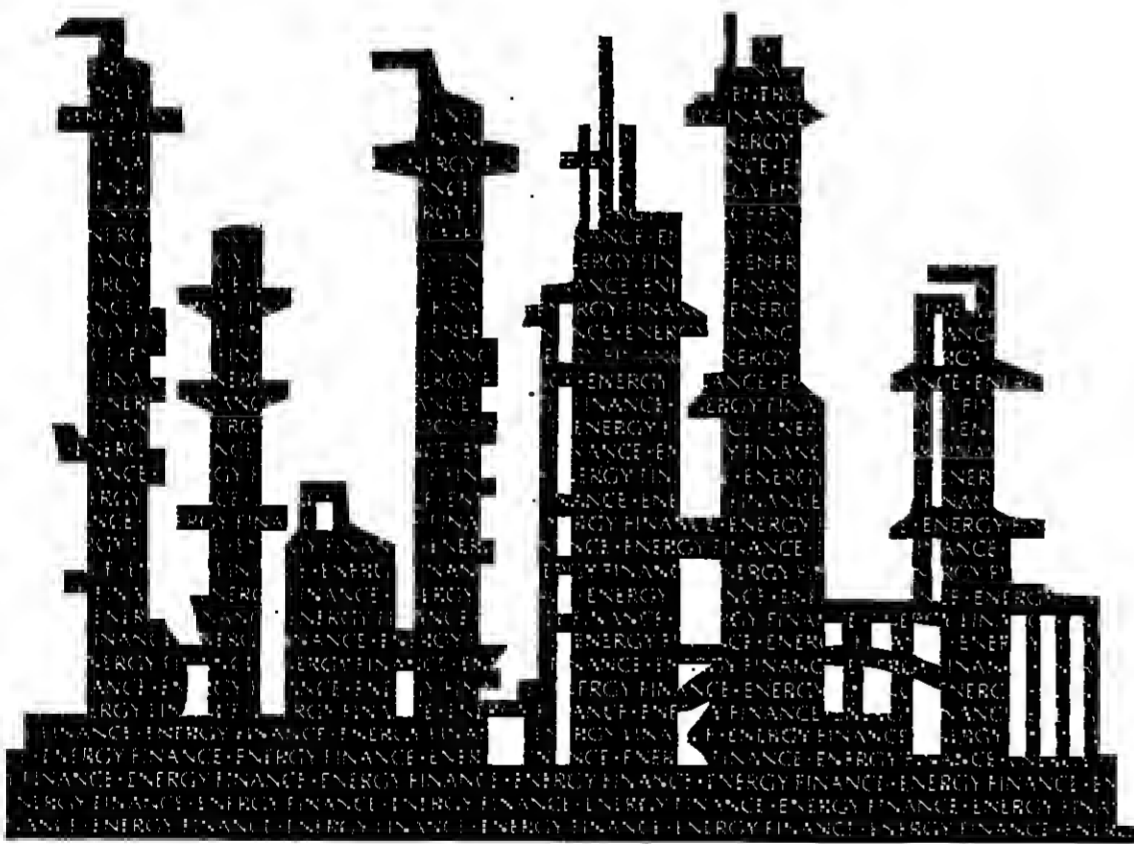


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Internal banking arrangements in some of the leading Middle Eastern countries are undergoing rapid development towards advanced Western methods, nowhere more so than in Turkey, Saudi Arabia and Egypt. FT correspondents highlight the trend

Burden of non-performing loans

Turkey

DAVID BARCHARD
in Istanbul

WHEN A senior Turkish Government official recently told a meeting of bankers in Istanbul that about 9 per cent of loans by commercial banks were non-performing loans, his words went almost unreported. Turkish businessmen, bankers and financial journalists believe the real figure to be much higher. "Our bank has loans outstanding of about 25 to 30 per cent," says the owner of one Istanbul-based bank. But he is quick to add: "I wouldn't call them non-performing in the usual sense. Only about 5 per cent of our loans will never perform."

It seems to be a question of definition. But by Western standards there is no doubt that because of the effects of three years of monetary policies along IMF-approved lines, much of the industry is heavily indebted to the banking system and unable even to keep up with its interest payments.

A few months ago bank managers were unwilling to discuss the problem openly. Today they will admit that it exists but suggest that understanding and patience may be sufficient to get the Turkish banking system back on track. Since the beginning of 1983, five Turkish commercial banks

have had to close their doors. Two more are known to be in serious danger.

The rest of the banking world is struggling to avoid a similar fate. Turkish banking practices developed in a period when conditions were easy for both borrowers and banks, with high profits coming from transaction charges combined with interest rates that lagged below inflation.

Banks vied with each other to win customers by building more and more branches. Their advertising in the campaign for customers for their expensive and inefficient services dominated the television screens every night.

Since 1980 the picture has changed drastically. Mr Turgut Ozal, the new Prime Minister, has imposed interest rate liberalisation on an unwilling banking community. Competitive interest rates for commercial lending and borrowing, long resisted, finally arrived in early May. There was a span of no less than 12 per cent between the rates offered.

The banks offering money on the cheapest terms—namely Interbank of Istanbul—were conspicuously the most profitable and efficient operators, while the most expensive terms are offered by banks whose profitability is doubtful.

Even so the net cost to borrowers, when commissions and other charges are included, is still at least 55 per cent and probably often more than 60 per cent.

Furthermore, though the banks all deny it, it is common knowledge in Turkey that

a borrower may often have to leave up to 20 per cent of his loan in the hands of the bank as "blockage" against default.

For depositors the conditions are better. Mr Ozal has pledged to keep real interest rates above inflation. Sight deposits attract 5 per cent interest, while one-month time earns 35 per cent and three months money 52 per cent. Six months money earns 48 per cent and one-year money 45 per cent. Interest rates for deposits are still set by the Central Bank.

At the Central Bank, Mr Yavuz Canevl, a key Ozal lieutenant, is presiding over major changes of the system in the hope that the IMF will forestall possible crashes. Last December the foreign exchange regime was liberalised.

Central supervision

Turks cannot carry foreign currency and buy large amounts of it without restriction. Commercial banks now handle the majority of foreign exchange transactions and the role of the Central Bank is largely confined to supervision and policing.

Mr Canevl has ordered the improvement of the banks' reporting system so that changes can be monitored quickly. He is also trying to start an effective interbank lending system. "The Central Bank has to lead the way in this," he says.

These and other administrative changes may eventually improve matters. But so far no one has been able to propose any solution to the problem of

the outstanding non-performing loans in the banks' portfolios.

Because of the umhilled links between many of the commercial banks, the fortunes of ailing industrial groups could jeopardise even efficient banks. Last year a banking reform law was passed which tightened up lending requirements and extended the responsibilities of bank directors. But it does not appear to be cutting the banks free from industrial groups, at least in the short run.

State involvement in banking is another problem. Turkish banks are led by two giants—the Ziraat Bank (agricultural bank) and the Turkiyeis Bankasi. Critics say the efficiency of both could be improved. But they—and the other state banks—account for 45 per cent of commercial deposits and have the attraction of unsinkability.

The insolencies of the past 18 months have further expanded the role of the state banks.

Mr Ozal is keen to cut this back. The activities of the Ziraat Bankasi which showed a clear tendency to become an industrial rather than an agricultural bank during the final months of its operation, have been sharply clawed back since Mr Ozal took over.

Although steady improvements may have begun, no one is yet willing to suggest ways in which Turkish banking can solve these or its other main problems. For the present, the struggle to keep afloat takes priority.

Vast amount of unbanked liquidity

AFTER YEARS of heady growth and unbelievably easy profits, Saudi Arabian banking is beginning to come of age and to feel the weight of responsibility which that entails. If they live up to official expectations, the Kingdom's 11 commercial banks will play a key role in the next phase of its economic development.

Already in the most recent fiscal year growth in assets and deposits—which only two years ago exceeded 20 per cent—has slowed to 3.8 per cent and 5.3 per cent respectively. Most banks' profits actually fell in 1983.

Apart from the obvious effect of the general slowdown in the Kingdom's economic growth, the main reason cited by the banks for this turnaround is the increasing cost of doing business. For example, as banks compete to draw in the still huge amounts of unbanked liquidity in the economy, they are having to expand their branch networks at a breakneck pace. The total of bank branches is still growing at an annual rate of more than 20 per cent and it will not be long before it tops 500, against less than 200 in 1980.

At the same time, banks are having to spend more on technological improvements (Saudi-British Bank was the first to have a Kingdomwide computer link-up late last year and the others are not far behind) and on training staff and introducing new services. These include Saudi riyal travellers' cheques (introduced last year and off to a slow start), 24-hour cash dispensers and an increased use of personal cheques and credit cards.

Competition will, if anything, be sharpened by the imminent arrival on the scene of the Kingdom's largest money-changer, the Al Rajih Company for Currency Exchange and Commerce, as an Islamic bank. As administrative outlays rise the cost of funds is also steadily growing. Increasingly sophisticated individual customers and recently more cash-conscious Saudi companies are no longer as happy as they were to leave their money sitting in easy-to-service, interest-free current accounts.

A major source of Saudi banks' easy profits—the ability to turn interest-free liabilities into assets in Bahrain or else

where carrying a return of 10 per cent and more—is thus being gradually removed.

But the most important change under way for Saudi banks is undoubtedly their increasing involvement in the domestic economy. Hitherto this has been driven primarily by government spending, but if the authorities have their way, it will come to rely more and more on the private sector in the next few years.

According to estimates by the Finance Ministry, the banks' lending to private business increased by 18 per cent in the most recent year—a remarkable figure at a time of slow overall balance-sheet growth.

This again entails increased administrative spending as the banks refine their approaches to credit analysis, a relatively new and difficult science given the lack of reliable accounting methods in Saudi businesses.

Anticipated involvement by the banks in the Kingdom's future economic development does not stop short and medium-term lending. Since last February they have been taking part in a monetary experiment by SAMA involving the launch of the central bank's first financial instrument.

Every week, SAMA issues a tender for 91-day deposits of up to SR 400m, a practice which officials describe as a first step towards creating a range of financial instruments in the Kingdom's embryonic tool to mop up excess liquidity.

In due course the banks are also likely to have a role to play in long-term lending and in the provision of private equity capital for industry.

A frequent refrain from businessmen in the Kingdom is the need for a more sophisticated financial system, including an officially sanctioned stock market to replace the present somewhat haphazard system of unofficial share-trading.

Thus any eventual official market would probably bear some resemblance to the West German or Swiss systems in which a fairly small and tightly-regulated circle of banks has the market almost to itself.

As for long-term lending, Saudi banks have hitherto been kept out of the market by the heavy involvement of state lending agencies offering interest-free credit. The commercial banks simply could not compete. One bank, the Saudi Investment Banking Corporation, founded in the 1970s by Chase Manhattan, among others, with the aim of specialising in medium and long-term lending, has to extend its charter to cover a more profitable range of activities.

But there is little doubt that as the Saudi state scales down its free gifts—and it has promised to do from next year—the banks will be called upon in this area too.

Saudi Arabia

ANDREW GOWERS

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Results of top three Saudi banks (in SRm)

Bank	Year	Net profit	Deposits	Reserves	Fixed assets	Total assets
National Commercial	1983	544	43,393	2,800	1,459	51,112
	1982	577	45,369	2,400	1,137	51,137
Riyad	1983	663	20,464	2,954	354	27,565
	1982	586	19,069	2,389	258	26,505
Saudi-American	1983	353	9,900	865	164	12,398
	1982	353	8,920	584	139	10,906

Tougher foreign currency rules

Egypt

CHARLES RICHARDS
in Cairo

A NEW Central Bank law and revised currency regulations have been introduced in Egypt to increase supervision of banking operations so as to eradicate the foreign currency black market and combat corruption.

The Central Bank law, which came into effect in April, invests the Central Bank of Egypt, the regulatory authority, with powers to impose progressive sanctions on banks breaching CBE regulations such as the domestic credit ceilings imposed last year.

In the past, the CBE had only the ultimate sanction of withdrawing a bank's licence. It was never exercised.

The CBE may now also appoint officials to take over the running of a bank board. The need to stiffen bank management is prompted by evidence that the increase in the number of banks licensed to operate in

Egypt—now nearly 80—has not been matched in all cases by higher standards of banking.

Central Bank officials have already been appointed to run two banks in Egypt, the Jammal Trust Bank, a wholly Egyptian-owned bank.

Both are being investigated by the Socialist Prosecutor-General entrusted with corruption cases over alleged gross violations of banking regulations.

Specifically, the banks were involved last year with a money changer, Sami All Hassan, later blacklisted, who lost an estimated \$37m borrowed from Pyramide Bank by speculating in French francs.

Pyramids Bank sought to cover \$10m of this by obtaining collateral in the form of post-dated cheques issued by the Jammal Trust Bank. Two other banks, the Faisal Islamic Bank, and the Egyptian Arab African Bank, also had post-dated cheques from Jammal Trust.

Jammal Trust has refused to honour the cheques, totalling \$22m, on the grounds they were forged, signed by an un-

authorised signatory who has since left the bank.

Jammal Trust's chairman, Ali Jammal, who is a Lebanese national, has been placed under house arrest under the emergency regulations after a request from the Socialist prosecutor to the Prime Minister.

The case raises questions about the use of collateral and banking practices in Egypt. Officials say the root cause is the inherent contradictions of the "own exchange" system for financing private sector imports.

Although it is illegal to exchange Egyptian pounds for freely tradeable currencies outside the banking system, importers may import without declaring the source of their hard currency.

New currency regulations introduced on March 31 are the first step in a plan to eradicate the black market and to channel the estimated \$30m a year remitted from workers abroad through legal banking channels.

At present about \$1.3bn is for private sector imports (15 per cent of all imports), \$400m for investment companies' needs and \$400m for free zone companies. The remainder is for

incidentals such as personal travel.

Officials say that because of the inelasticity of demand, three or four currency brokers can keep the black market dollar rate artificially high.

Since March 31 banks have been authorised to buy dollars at E£1.12, midway between the official rate of \$1 for E£0.83 and the free market rate of \$1 for E£1.22.

Private importers may in theory buy dollars at E£1.17, but private banks who have access to Egyptian workers in other Arab countries have no sources for financing. Three banks, Misr International, Misr Romanian and El Nil, have applied to open offices in the other Arab states to increase their competitiveness in trade financing.

Private importers say that since the Big Four private sector banks cannot meet their demands they will continue to go to the black market.

Critics say a more comprehensive approach meeting the E£0.83 and E£1.12 rates was needed not only for imports but also for Law 43 investment companies and free zones where the old rate still applies.

'Going local': the only sure way to win a greater market share

Bahrain

MARY FRINGS

ON MAY 1 a 10-year-old local commercial branch of Grindlays Bank plc became Grindlays Bahrain, a joint venture national bank in which 60 per cent of the shares are held by leading Bahraini citizens, trading companies and state pension funds. Grindlays retains a minority shareholding and manages the bank under a five-year technical assistance agreement; its offshore operations are not affected.

"Going local" is the only sure way for a foreign bank to increase its share of Bahrain's highly competitive domestic market—and not only because wealthy and influential Bahraini shareholders will put business in its way. Bonds and guarantees for public sector projects are now arranged only through national banks; they also have a monopoly on local and Gulf company share issues, which have brought in fantastic windfall profits over the past few years.

Privileged

If Chartered Bank and British Bank of the Middle East (BBME) still hold a privileged position among the Big Five, it is because long-standing relationships count for a good deal in the Arab world. Chartered opened in 1920 as the Eastern Bank, and was the only banking institution in Bahrain for nearly a quarter of a century. Although BBME did not come in until 1944, it was still 13 years ahead of the first indigenous bank.

But in 1973, when Grindlays was given a licence to open a branch in its own name as compensation for losing its stake in the restructured National Bank of Bahrain (NBB), it already had a dozen competitors. A third national bank (Al-Ahli) was to join NBB and Bank of Bahrain and Kuwait (BBK) before the end of the decade.

Last year Grindlays came halfway down the list of banks outside the Big Five, including the residual local branches of international banks which have now gone offshore. Between them, these 13 banks held only 19 per cent of domestic assets and an even slimmer 12 per cent of net profits.

The total assets of the 18 domestic banks amount to only 7 per cent of those held by offshore banking units (OBUs) —\$4.4bn against \$60bn. But although sharply increased commercial registration fees may cut into profit margins this year, domestic business is far more lucrative.

It is so lucrative, in fact, that the Bahrain Monetary Agency (BMA) has encouraged customer-awareness of interest rate margins by requiring publication of prime lending rates. The first published rates are mainly at the 10 to 10½ per cent level, although Bank Saderat Iran goes as high as 12 per cent. This compares with a six-month deposit rate ceiling of 7½ per cent (or 8 per cent on CDs over BD 30,000).

It remains to be seen whether this initiative will lead to reorientations from customers given a lower rate—and to what extent the lethargy factor will prevent prime borrowers from taking advantage of higher dollar deposit rates, given the minimal exchange risk.

Bahrain has suffered less than its neighbours from the effects of the oil glut and

regional political risk. Private construction activity has remained at a high level, based on possibly exaggerated hopes of a business and tourist boom after the completion of the Saudi-Bahrain causeway at the end of 1985. Meanwhile, locally-based paid-Arab industrial projects have helped to boost NBB's guarantee and letter-of-credit business to BD 254m (\$675m)—equivalent to 42 per cent of its total domestic footings and more than the contractions of all its 17 competitors put together.

Results

Against this background, domestic banking assets grew by a healthy 8.8 per cent in 1983, and the only bank to lose money was Bank of China, which was BD42,000 in the red after provisions for bad and doubtful debts of BD183,000. This bank was one of the earliest candidates for localisation, but the project was shelved when Egypt fell from Arab favour.

Iraq's Rafidain Bank and the two Iranian banks showed all balances (and thus no profit to repatriate) after transferring to provisions the surplus of operating income over costs. In the case of Bank Mehi Iran these provisions amounted to BD1,944m (\$5.2m), exceeded only by the \$7.7m set aside by BBK from its gross domestic profit of \$30.3m.

According to BMA statistics, 65 per cent of BBK's con-

solidated assets and 42 per cent of its profits relate to its OBU operation and its branch in Kuwait. NBB's Abu Dhabi branch and OBU appear to make a much smaller contribution, with 63 per cent of assets and 94 per cent of profits being credited to Bahrain. However, general manager Hassan Ali Juma explains that NBB does not treat its OBU as a separate physical unit and that in reality 30 per cent of profits were made offshore.

At home, the Big Five are gearing up for increased competition not only from Grindlays Bahrain but also from the newly-formed Bahraini-Saudi Bank, which is due to open towards the end of the year. This BD 40m (\$106m) joint venture has signed a joint venture with Singapore Pacific International Bank as consultant and Chase banker Richard F. Stacks as first general manager. Mr Stacks recently completed four years at the head of Saudi Investment Banking Corporation (SIBC) in Riyadh.

All are stressing computerisation as the key to better customer service. BBME has also installed Automatic Teller Machines (ATM's) for 24-hour banking at its head office and five branches. BBK has established a separate office for foreign bank and remittance, which challenges the Sng money-changers by staying open until 7 pm, while NBB has extended afternoon opening hours at its out-of-town branches.

Profitability of Bahrain's "Big Five" domestic banks, 1983 (BD 1=\$2.65)

Bank	Assets excl. central	Profit after provisions	Net interest income (as a percentage of average assets)	Other income	Operating costs	Net profit
	BD m	BD m	%	%	%	%
National Bank of Bahrain*	354.38	12.07	4.51	1.19	1.75	3.94
Bank of Bahrain & Kuwait*	390.75	3.53	3.23	0.40	1.61	2.99
British Bank of the ME*	96.55	1.97	4.08	1.61	3.36	2.14
Al-Ahli Commercial Bank	136.74	2.39	3.49	0.44	1.64	1.89
Chartered Bank*	147.58	1.48	2.41	0.70	1.98	1.02

* Excluding OBUs or overseas branches. Table compiled by Mary Frings on the basis of BMA statistics.

Mergers on the horizon

United Arab Emirates

KATHY EVANS

IN THE last six months the United Arab Emirates' banking scene has undergone some strains with the demise of the Dubai-based Union Bank of the Middle East.

The repercussions of the Government bail-out last December have been felt throughout the banking system, and in particular among the local banks.

The Union Bank's difficulties began originally with a directive from the central bank which required loans given to directors to be more than 5 per cent individually and 25 per cent for the whole board of the bank's capital.

The requirement, coupled with a deadline, aroused

criticism from prominent bankers and merchants. They pointed out that in order to meet the central bank's requirements, the assets of directors could face being sold off at bargain prices. Such a move would depress the already recession-ridden economy.

In the case of the Union Bank, its former chairman Mr Abdul Wahab Galadari, has suffered a seizure of all his assets, including those over now being sold off to other rival merchants in the emirate, a fact which he much resents. Peat Marwick Mitchell has been called in to act as Receivers under the orders of the temporary board of the bank, which was appointed by the Dubai Government.

All of this is happening, despite the fact the UAE still has no code of bankruptcy.

The rapid demise of one of Dubai's most prominent businessmen and the bank that he chaired, once the third largest in the country,

has shaken confidence, despite the rapid Government support which followed. Other, comparable banks, were also found to be in similar difficulties over their directors' loans, but unlike Union Bank, they have been given time to restructure the portfolios.

The UAE banking system has also been affected by the slowdown in payments by the federal and local government departments.

Prospects

Many of the local banks have found themselves keeping ahead local companies and contractors which are awaiting payment from the Government. Now a number have had to make larger provisions for bad debts, and this has trimmed balance-sheets back severely.

The country's largest bank was no exception. The National Bank of Abu Dhabi recorded a near-50 per cent cutback in profits in 1983, largely because of debt provision. Profits fell from

Dh 198m in 1982 to Dh 104m last year.

The bank's overall balance-sheet fell from Dh 23,400m to Dh 22,700m. Cash balances went up from Dh 5,500m to Dh 4,250m while advances went up by a marginal 12 per cent to reach Dh 6,700m.

The greatest percentage increase was recorded by the bank's Washington subsidiary, the Abu Dhabi International Bank. Even customers' deposits fell during 1983.

Naturally, the slack oil market has also had its impact on the banks, and development budgets have been severely trimmed in the Emirates. In the past two years, the country has had to transfuse funds from boom conditions to a sluggish and difficult market. The banking system is doubly hit by the sheer number of banks and branches in the country.

The next 12 months should, hopefully, see some progress on the merger plans talked about by the Finance Ministry.

After dire troubles on the unofficial stock market...

Banks help to provide solutions

Kuwait

KATHY EVANS

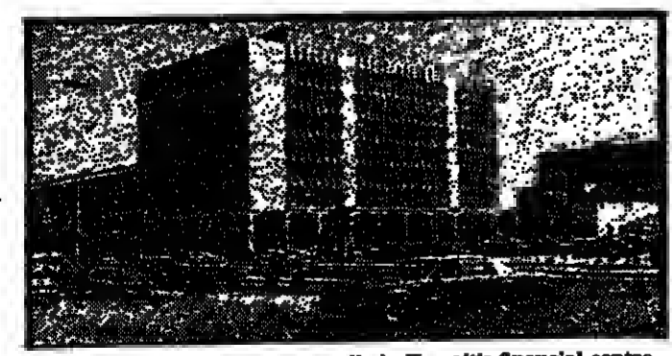
KUWAIT'S economic scene in 1983 and the current year continues to be marred by the disaster known locally as "manakh". When clients fail to pay up—or, alternatively, don't order—all is explained in Kuwait by the Manakh.

In the last month, however, a new optimistic mood prevails. Hopes are high that, finally, the country may be seeing the light at the end of the tunnel, and that a solution is near on the post-dated cheques problem.

The Souk Al Manakh disaster dates back to September, 1982, when a crash on the Gulf stock exchange brought to light a trail of post-dated cheques, written as payment in forward share deals.

The mountain of cheques totalled a staggering \$940m. Unbought shares were paid—how much can be paid—has obsessed most of the country's financial experts for more than 18 months now.

It has already cost one minister his job (the former Finance Minister, Abdul Latief al-Hamad). The cheques problem has spurred some of the best families, government officials and politicians in Kuwait. The banks have, to a large extent, emerged unscathed, largely because of early protective measures taken by the Central Bank. The monetary



A new mood of optimism prevails in Kuwait's financial centre.

authorities forbade the banks to lend for speculative purposes. Even though the banks are not directly involved (in most cases, anyway) they have inevitably been affected by the stream of people being steadily referred to the Government receiver. So far, nearly 300 people have been identified as being unable to pay their debts, even at knock-down prices.

The catastrophe of the Souk Al Manakh was also a blow to confidence in Kuwait, and the economy has to some extent been plagued by stagnancy since the crisis. The general gloom, coupled with the seeming inability of the Government to solve the problem, has also hit stock exchange prices, both on the official exchange, as well as the Gulf markets.

As shares are a principal form of collateral in Kuwait, the decline in prices became worrying to local bankers earlier this year. Prices calculated at the free market index showed a

40 per cent difference to the official Government support level.

The downward trend was particularly noticeable in the industrial companies, many of which were burdened by post-dated cheques themselves.

Given that about 25 to 50 per cent of Kuwait's total bank credit of KD 4.7bn was backed by official shares, albeit with 200 per cent cover, the concern was understandable.

But in mid-April a surge became apparent on the market, largely because of local expectation of a forthcoming solution to the problem from the Government.

The solution will break down the assets of those already referred to the Government receiver, in three ways—real estate and official market shares which constitute 83 per cent; shares from the Souk Al Manakh companies and Kuwait closed companies which form 22 per cent of the assets; and the re-

mainder which it notes receivable from debtors.

Under the present formula, the three real estate companies and the Islamic Bank in Kuwait will take over the real estate assets. The shares will be taken over by the three semi-state investment organisations, while the remainder will be underwritten by the banks.

According to this formula, the banks will be asked to underwrite the debts owed by the solvent to those in receivership.

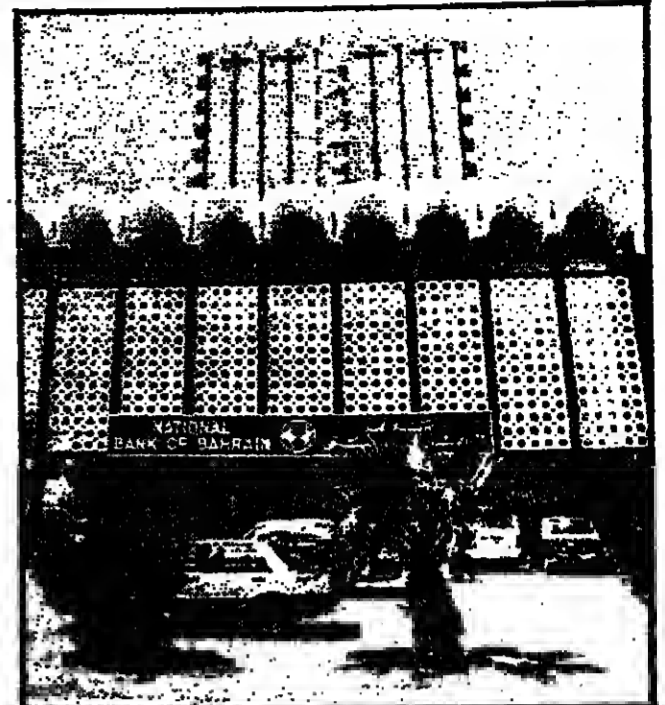
It is too early to say yet whether the scheme will work, but what is certain is that KD 510m will be pumped into the system which could go a long way in providing the liquidity necessary for payments to begin.

At the moment, the desire of Kuwaitis to believe in the formula's success may prove a vital ingredient in restoring confidence.

Conference on World Banking

THE Financial Times is organising a conference on the theme "World Banking in 1985" — the event will take place at the Hotel Intercontinental, London, in December.

Further details are available from the FT Conference Organisation, at Minister House, Arthur Street, London EC4. Tel: 01-621 1355.



Left: a section of the busy foreign exchange dealing room of the Gulf International Bank in Manama, Bahrain. Above: the headquarters of the National Bank of Bahrain, the most profitable of the island-state's "Big Five" domestic banks

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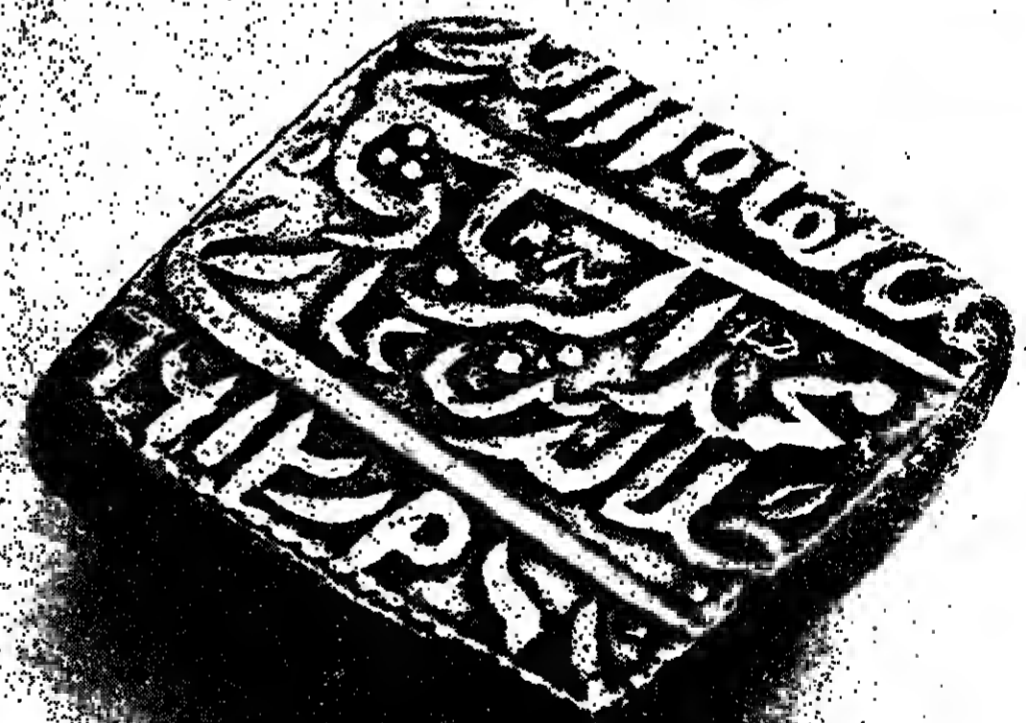
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HIGHLIGHTS — 1983

Capital & Reserves	US \$ 71,186,000
Deposits	3,074,326,000
Advances & Investments	2,374,401,371
Total Assets	4,163,347,886

By the Grace of Allah UBL has achieved the highest growth rates during 1983, as shown below:

Deposits	53%
Advances	35%
Foreign Trade	101%
Profit	31%
Assets	45%

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Here and on the following three pages FT correspondents highlight domestic banking developments in the Asia/Pacific region

Big Four expect upturn

SINGAPORE'S strong-performing financial and business services sector grew by 16.3 per cent in 1983, faster than 1982's 12.2 per cent and second only to the construction sector, whose borrowings helped fuel the expansion. The two sectors together contributed more than half of Singapore's better-than-expected 7.9 per cent growth last year in gross domestic product and, to judge by the most recent figures, financial and business services will again be a major source of growth this year.

January's figures suggest the growth is continuing, and Singapore's "Big Four" local banks plainly hope to report better 1984 figures than they managed in 1983.

Last year, for the second year in a row, the figures were rather lacklustre, although 1981's huge 41 per cent average growth in profits, with which comparison is inevitably made, was helped by high interest rates and inflation rates.

United Overseas Bank, widely regarded as the most aggressive of the banks, produced the strongest results and confirmed its position as the largest local bank in terms of attributable earnings.

However, while group net profits for the year to December 31 were 9.1 per cent higher than the \$115.8m, they included an extraordinary after-tax profit of \$15.8m on the sale of its shares in the International Bank of Singapore (IBS). Without this profit, they would have been down 1.7 per cent on 1982.

The same is true of two of the other major banks, DBS Bank and Overseas-Chinese Banking Corporation. They also sold out their IBS stake to the fourth major, Overseas Union Bank, the first local bank takeover in years.

DBS Bank, the largest local

although DBS Bank's annual report says that an amount of \$593.5m was set aside "as provision for possible loan losses and diminution in value of other assets." This, it says, is an increase of \$41.9m over the 1982 amount.

The local banks also continue to face tough competition from the Post Office Savings Bank (POSB), whose strength in the market for deposits has always been something of an irritant because it has a special tax-exempt status as a statutory body, has over 120 branches (more than any commercial bank) and operates a large network of automated teller machines.

Although the Government decided last year to reverse its earlier decision to convert POSB to a full commercial bank, POSB did extend its services to include the provision of current account facilities and the issue of travellers' cheques.

Controversial

The bank may even be allowed to offer interest on its current accounts, but this has yet to be decided and would certainly be controversial if it occurred.

POSB has meanwhile faced increased competition itself for savings from higher interest-bearing offshore and finance company accounts. Deposits in bank "autosave" accounts, offering both liquidity and interest on daily balances, also grew rapidly last year.

The next domestic development will be further progress towards the cashless society. A big step was taken last month

with the establishment of an interbank giro system, linking an electronic funds transfer system to the automated clearing house set up 18 months ago.

The new system is expected to reduce the cash and cheques in circulation by allowing salary payments and debit transactions to be made automatically. An electronic funds transfer at point of sale (EFT/POS) system is also being considered by local institutions.

On the regulatory side, Singapore's banks are having to adjust to important changes in leading rules following the passage of amendments to the Banking Act earlier this year.

The changes tighten official controls over the banking community's ability to grant loans and credit to individuals or companies, and are designed to prevent banks becoming too valuable by ensuring that credit facilities are spread over a large number of persons in diversified businesses.

The key provision says that a bank shall not grant credit to any person to the extent of the excess of 30 per cent of the bank's capital funds—half the previous limit.

A bank is also forbidden from granting "substantial" loans which exceed 50 per cent of its available facilities. A substantial loan is 15 per cent of a bank's capital funds.

Worries that the regulations might apply to foreign currency or offshore loans were eventually dispelled by the Monetary Authority, which also said that banks which already exceeded the specified limits would have two years to comply.

Singapore

CHRIS SHERWELL

bank in terms of assets, suffered a 10.7 per cent drop in net profit in the year to December 31 from the figures, but a 1.6 per cent gain if it is included. OCBC, the most conservative of the four, explicitly chose not to include the amount in its figures and suffered a 7 per cent decline in group net profit to \$114.07m.

As for OUB, which paid \$116.6m for IBS, it reported a 0.6 per cent increase in group net profits to \$82.1m. IBS itself, meanwhile, became the first local bank to go into the red when it reported an \$18.1m loss.

The banks have had to live not only with tighter margins in the past two years but also with the need to make increased provisions, especially against loans overseas. This is in line with the cautious and prudent policy on these matters of the Monetary Authority of Singapore, the equivalent of the central bank.

Detailed figures on these provisions are not available,

Changes in regulated regime

SINCE the war ended in 1945 the security of the Japanese banking system has never been in question. Indeed, it was largely because the domestic scene had become so predictable, though still profitable, that Japanese banks, always alive to the needs of their corporate clients, began their by now well-travelled Odyssey into international waters.

Now, however, glimmerings of change are to be seen within Japan.

In part, these changes have been brought about by the natural growth to maturity of the Japanese economy and the financial system which underpins it. In part they are the result of external pressure, mainly in the shape of specific requests for reform and progress towards a more open market, delivered—with increasing frequency over the past nine months—by the U.S. Government.

Together, these factors are starting to punch a few holes in a tightly regulated financial regime famous for its ability to confine financial institutions (be they commercial banks, trust banks, credit banks, securities houses, and foreign participants) into watertight compartments.

No matter what reforms it envisages in its own volition or are imposed on it from outside, it is apparent that the Japanese Government, specifically the all-powerful Ministry of Finance, will go to great lengths to ensure that the fundamental security blanket remains in place.

Yet, in looking ahead, it is not impossible to imagine some restructuring of the financial system as the barriers between sectors break down and competition becomes more widespread.

Such change may not be on a par with that affecting troubled industries (for example, petrochemicals) in recent years, but, by the previously inert standards of the domestic financial scene, the impact may appear substantial.

In fact, the more efficient Japanese financial institutions are not averse to the challenge of a more fluid era. The major "city" banks have now come to recognise that their neglect of the consumer finance sector—which made possible the rise of the sometimes notorious "sarakin" money-lending firms—was, in hindsight, a mistake.

Now, the Japanese consumer, who once had to be satisfied with a diet of niggardly interest and free tissue paper, is being wooed by the banks with a variety of new investment

(arguably the weakest link in the existing financial chain). This barrier will probably be lowered in practice, now that the principle has been resolved, next year.

Because the Ministry of Finance is as capable as it is, it did not throw out the baby with the bathwater. It specifically excluded from banking the proposed combinations of joint ventures between U.S. banks and Japanese securities houses, which, the Ministry felt, were too big an outright threat to the demarcation between banking and stock-broking.

But it was also significant that, earlier this year, the Ministry allowed Vickers da Costa, the London stockbroker, to retain its Tokyo dealing licence in spite of its takeover by Citicorp, holding company parent of the U.S. banking giant.

Again, in the conditions it laid down, the Ministry went to great lengths to avoid setting a precedent which other securities firms owned by banks could follow. Nonetheless, even to sanction a potential blurring of the old divisions is probably something that would not have been entertained a few years ago.

However, there are some institutional reforms which remain totally below the horizon. In spite of intermittent official insistence that the idea is still under consideration,

the proposed Tokyo offshore banking facility (which could have been modelled along existing lines) seems a long way from fruition.

The Japanese authorities, convinced of the virtue of controls, also remain profoundly adverse to such concepts as futures markets—though they may, intriguingly, be about to drop their previous objections to foreign exchange broking.

Since this is Japan, it must be remembered that all things are relative. Few countries possess banking systems with access to as much technological skill as Japan's yet even the basic banking technology in use world-wide is unevenly applied here.

Automatic cash points, for example, are kept open for only a little longer than regular banking hours (the banks blame Government regulations but do not appear to be pressing very hard for repeal) while the basic over-the-counter service provided to bank customers is a monument to manual labour.

On the other hand, bank cards are used increasingly for direct purchases and credit card ownership is burgeoning, again with the banks in the lead.

In sum, the Japanese banking system is changing. The pace of change now, and one which both Japanese and foreign governments will be asking for some time, is how fast it will change.

Japan

JUREK MARTIN in Tokyo

devices and loan facilities.

Japan remains still, perhaps uniquely for an industrialised country of its power, a society which professes cash settlement and rewards industrious savers, but not as exclusively as it once did. The national savings rate has now slipped to under 20 per cent and the concept of properly managed personal debt is no longer quite so alien as the age of affluence dawned.

More international attention, however, has been devoted to the structural rigidities and demarcation lines of the domestic financial system. Probably the most significant sectoral development of the past year has been the Ministry of Finance's concession of this spring that foreign banks should be allowed to handle Japanese pension fund business in competition with the established Japanese trust banks

Extensive shake-up to meet national needs

IN THE most extensive shake-up since the 1949 Communist Revolution, China's banking system is being completely restructured to manage the greater complexity and range of the country's international financial transactions and to meet the needs of its rapid economic modernisation.

Under reform plans announced late last year, a separate central bank with wide-ranging powers, has been established, a newly-structured industrial and commercial bank has been formed, and a new national banking law is being drafted.

At the heart of the changes is the formation of the People's Bank of China as the central bank. Its charter requires it to act as the State Treasury, control the money supply, regulate all monetary organisations and formulate monetary policy for the State Council or Cabinet.

The People's Bank's previous functions of deposit-taking, lending and cash management have been transferred to the new Industrial and Commercial Bank.

In the past the People's Bank operated as one of a number of largely-independent and poorly co-ordinated banks within the Chinese financial system. One of its key functions now is to regulate all the other banks—the Agricultural Bank, the People's Construction Bank, the Investment Bank and the Bank of China, as well as the Industrial and Commercial Bank.

The creation of the Central Bank after two years of preparation, is designed to bring much more effective central control over the whole banking system and increase the sophistication of Chinese financial procedures.

The move towards established Western banking practices is in line with the country's rapid opening to foreign investment and international borrowing over the

over-decentralised, it is necessary to strengthen the role of the central bank," said Lin.

He added that the People's Bank would control between 40 and 50 per cent of national credit funds so as to regulate and balance national credit payments. Budgetary deposits of Government departments and people's organisations would be incorporated into the bank's funds along with a portion of the deposits of the specialised banks.

The Bank of China will remain the State agency responsible for handling international banking, foreign exchange transactions and settlement on international accounts, and the promotion of foreign exchange deposits.

The general banking reforms come at a time when the Bank of China is rapidly expanding the volume and scope of its operations.

The latest report of the Bank of China, released last month, shows that its total assets grew by 16 per cent last year to Renminbi 137.9bn (about US\$65.7bn), a combined increase of about 28 per cent since 1979 when China began implementing its economic reform policies.

Last year the Bank of China began to raise funds for aid and energy projects which will enhance substantially its international skills.

The Bank of China's other crucial task has been in marshalling the foreign exchange holdings required to finance the country's ambitious modernisation programme up to the year 2000. The holdings reached a record US\$14.3bn by the end of December—combined with gold reserves of 12.87m oz.

China

MARY BAKER in Peking

past five years under the reform plans spearheaded by the Chinese leader, Deng Xiaoping.

One of the first tasks set for the new People's Bank by the State Council has been the drafting of new national banking laws, which is still under way. The laws will, among other things, detail the broad powers vested in the People's Bank to issue economic and administrative sanctions against the specialised banks.

According to the Vice President of the People's Bank, Liu Hongru, the changes are designed to counter the problems of decentralisation in China's banking system, bring greater efficiency and improve China's standing in world financial circles.

In order to improve the role of the bank as an economic lever, concentrate social funds on national economic construction and change the present situation of having funds managed by more than one department while the use of funds is

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	Assets Ybn	Profits Ybn
Dai-ichi Kangyo Bank	19,337	83.4
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Sumitomo Bank	17,040	187.2
Mitsubishi Bank	16,595	95.2
Sauwa Bank	16,094	92.3
Industrial Bank of Japan	14,522	103.3
Mitsui Bank	12,751	67.1
Tokai Bank	11,875	65.9
Long Term Credit Bank of Japan	11,753	64.0
Bank of Tokyo	10,894	50.5
Taiyo Kobe Bank	10,093	48
Daiwa Bank	9,309	36.1
Kyowa Bank	6,368	29.8
Saitama Bank	6,064	38.5
Hokkaido Takushoku Bank	4,625	24.3

Source: Japan Economic Journal

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Asia/Pacific

Territory's fate after 1997: UK anticipates a 'high degree' of autonomy and minimum disruption of the present system

Leading banking centre of South-East Asia

SIR GEOFFREY HOWE, British Foreign Secretary, has spelt out for Hong Kong the desired shape of its administration after 1997 when Britain's lease over the territory expires.

British administration would end and Hong Kong would once more become a part of China, Sir Geoffrey said in April. It would, however, retain a "high degree" of autonomy within which both Britain and China would want it to maintain its present systems and way of life with the least possible disruption.

A "Communist takeover" is the stuff of bankers' worst nightmares. If Hong Kong were not a financial centre in its own right, but merely an agricultural or manufacturing enclave, many bankers would probably already be reducing their loan ceilings.

It is, fortunately, the most important banking centre in South-east Asia, and a good lifestyle to bankers. Bankers feel comfortable. They want it to work, up to and even beyond 1997. They cherish that hope even if it defies probability. So, for the moment at least, optimism is the order of the day.

Argument

Already, some major structural changes in Hong Kong's economic and monetary systems can be directly related to the underlying shifts in political settlement.

Some analysts argue that Deng Xiaoping's "set your hearts at ease" reassurance to Hong Kong in 1979 helped to stimulate the territory's most recent and most inflated property boom. There can be little doubt that the property market's collapse in 1982-83 was the more fierce because it coincided with the emergence of China's intention to resume sovereignty over the territory in 1997.

The "linkage" of the Hong Kong dollar to the U.S. dollar, effected last October at the rate of HK\$7.80 to the U.S.\$, became necessary when angry Peking pronouncements about Hong Kong's future promoted a "run" on the currency. Shortly before the pegging, the jittery Hong Kong dollar had touched a record low of HK\$9.50/U.S.\$, a decline in value of almost half since January 1983.

Some analysts—particularly Mr John Greenwood of GT Management, who persuaded the Hong Kong government to adopt the U.S. dollar link—believe that even without political uncertainty the same corrective action would have been necessary sooner or later to tighten the territory's lax monetary controls.

Mr Greenwood successfully argued, in the heat of last autumn's crisis, that the Hong Kong Government should issue new banknotes only against U.S. dollar deposits at a fixed exchange rate, and offer to redeem them at the same price.

Hong Kong

CHRIS SHERWELL in Hong Kong

This guaranteed convertibility of Hong Kong dollar banknotes would be relied upon to stabilise the exchange value of the whole Hong Kong dollar money supply.

Sir John Brembridge, Hong Kong's Financial Secretary, was persuaded that Mr Greenwood's proposal was the best option to save the Hong Kong dollar. In practice it has worked so flawlessly that critics who, eight months ago, thought the Hong Kong dollar was heading for oblivion are now lobbying for its upward revaluation.

One major effect of the HK\$/U.S. exchange rate linkage has been on the territory's deposit interest rates, ceilings to most of which are set at the retail level by a cartel of banks. The cartel was originally authorised 20 years ago, to end interest rate "wars" between local banks trying to expand market share, and almost going broke in the process. In recent years interest rates, and thus the cartel, became a main instrument of monetary policy.

The U.S./HK\$ linkage effectively ties growth of Hong Kong dollar money supply to the territory's balance of payments—since banknote issues depend on the presence of foreign currency to back them. The system depends on interest rates reflecting market forces, balancing supply and demand in Hong Kong dollars.

Recognising the needs of the new monetary system, the Hong Kong Association of Banks (HKAB), in which the cartel is vested, has in recent months been meeting and moving interest rates more frequently. Early this year prime lending rate was being moved almost weekly, while some banks dropped their deposit rates below the ceilings imposed by the banking system was high.

The cartel is still in business, but in a more flexible form. If and when confidence continues to firm in the stability of the HK\$/U.S.\$ linkage, however, retail customers will be able to bypass Hong Kong dollar interest rate ceilings by moving, free of exchange risk, into unregulated locally-held U.S. dollar deposits.

The eventual pattern is likely to be one in which Hong Kong dollar and U.S. dollar interest rates simply mirror one another, with minor deviations reflecting temporary excesses or deficiencies of liquidity with particular Hong Kong banks.

Erosion of the interest rate cartel is likely to squeeze margins for those local banks with strong Hong Kong dollar deposit bases. For such banks, recent years have been highly profitable. In 1982, Hang Seng Bank, a retail subsidiary of the Hongkong and Shanghai Banking Corporation, made a net profit equal to 1.7 per cent of its total assets, a return roughly twice as high as a strong U.S. bank might achieve.

Foreign banks, meanwhile, may be able to improve their relative positions in the retail market attracting funds by offering high interest rates, rather than by operating cumbersome and expensive branch networks. They will be less subject to the vagaries of inter-bank funding, where the overnight rate for Hong Kong dollars has varied between 40 per cent and zero per cent over the past nine months.

As Hong Kong moves towards 1997 the Communist movement is already operating in the territory—but as a commercial, not a military, force. The Peking-owned Bank of China group is now Hong Kong's second largest banking bloc after the Hongkong and Shanghai Banking Corporation itself.

Peking-affiliated trading and industrial companies, such as Everbright and China Resources, are becoming more active in Hong Kong and signing increasingly large contracts. Earlier this year China Resources bought a controlling stake in Conic, Hong Kong's largest electronics manufacturer. Everbright contracted to buy eight blocks of flats for HK\$1bn.

Exception

Such signs of new investments are a welcome exception to the reluctance of most investors to make large-scale capital commitments in Hong Kong, ahead of the uncertain future.

Sluggish loan demand was a major factor in slowing 1983 net profits growth to just 6.7 per cent for the Hongkong and Shanghai Banking Corporation. Most smaller banks reported near-static profits.

If it were merely a slowdown in long-term lending which were in prospect, most Hong Kong bankers could view the future with relative equanimity. The fear is rather of sudden shocks, such as Jardina Matheson's recent decision to move its domicile to Bermuda, which could destabilise Hong Kong's markets and confidence over the next 13 years.

Some financial institutions will probably diversify their business away from Hong Kong, while maintaining an office as a public sign of confidence in the territory. Tokyo will be the logical home for such emigrants, with perhaps an ASEAN representative arm in Singapore.

Moves to mobilise domestic funds

Indonesia

KIERAN COOKE in Jakarta

BANKING IN Indonesia has tended to lag well behind the country's dramatic economic development over the past 15 years. But, as funds from oil exports have dropped in the last three years, the government, determined to keep foreign borrowing within manageable limits, has been putting ever increasing emphasis on the mobilisation of domestic funds.

This, in turn, has led to a small revolution in banking which began last June under the leadership of Mr Arifin Seregar, the newly installed governor of Bank Indonesia—the central bank.

The measures removed all quantitative credit ceilings on bank loans which had been in force for nine years; did away with ceilings on interest rates which five state banks could offer on time deposits, and exempted from tax interest earned on such deposits.

In a short space of time large amounts of the Indonesian currency, the rupiah, were flowing into the banking system, attracted by interest rates of up to 18 per cent. By the end of 1983 time deposit at state banks increased by nearly 90 per cent and it is estimated that well over \$2bn of funds, some of which had gone offshore in the days preceding a 27 per cent devaluation of the rupiah early last year, had been injected into the banks.

So successful have the new measures been that there is now concern that the system is over-liquid and through using a number of financial instruments, Bank Indonesia is making efforts to lower the interest rate to promote greater borrowing. But Bank Indonesia not only sought to attract funds back into the domestic banking system, it also wanted to create a more competitive, dynamic and modern banking structure.

Five state banks have dominated the system through the years, accounting for more than 80 per cent of total banking business. The remainder is split between 70 private banks and 11 foreign ones—the latter restricted to the Jakarta metropolitan area.

Over-protected, the state banks had become ponderous bureaucratic institutions. At one stroke the new measures forced the state banks to become more aggressive and competitive in a new open market. While they have succeeded in attracting a large increase in time deposits, there is evidence that credit has not expanded sufficiently.

Big rise

In the last six months of 1983, while state banks deposits nearly doubled, lending went up by only 11 per cent. Private and foreign banks, less bureaucratic, and more equipped to deal in a highly competitive system, have seen their lending volume rise substantially in the same period.

However, there are signs that the state banks are becoming more independent and adapting to the new climate. A number of them have signed agreements with foreign banks to mechanise and improve their services. Foreign institutions have been particularly favoured.

The biggest of the state banks is Bank Negara Indonesia 1946 (BNI 1946) with total assets at

the end of September 1983 of 4,632bn rupiahs. However, the highest profit earner was the second-ranked Bank Bumi Daya (BBD) with gross earnings of the 61.1bn rupiahs in the first nine months of 1983.

Five banks dominate the private sector, of which some, such as Panin Bank and Bank Central Asia, show increasing signs of challenging the position of the smaller state banks. It is generally felt that the government wants to see the number of private banks reduced from the present 70 to about 25. This sector is fiercely competitive and one banker said that at the moment private

banks have to expand by at least 30 per cent a year to retain their position.

Foreign banks have steadily increased their business along with the growth of the Indonesian economy, and while they would like to expand their operations outside Jakarta, they are pleased with recent developments. They see Bank Indonesia playing a less protective role while generally assuming a more positive position in overall management of the system. This became particularly evident earlier this year when it introduced lender of last resort facilities and Bank Indonesia certificates.

TIME DEPOSITS WITH INDONESIAN STATE BANKS (Rupiah bn)

Table with 5 columns: Year, 3 months, 6 months, 12 months, 24 months. Rows for 1983 (May, June, July, August, September, October, November, December) and 1984 (January, February).

Banks come under increasing scrutiny

Malaysia

WONG SULONG in Kuala Lumpur

MALAYSIAN BANKS are coming under increasing scrutiny and criticism in their borrowing and lending, following reports of buoyant profits.

Even in the depressed years of 1980-83, when earnings of most Malaysia companies fell, the banks and other financial institutions were still able to report profit growth exceeding 25 per cent annually.

According to Bank Negara, the Central Bank, the secret of such success is neither any great increase in productivity nor business innovation by Malaysian banks, which remain among the most conservative in Malaysian business.

Rather, the banks have taken advantage of their freedom to determine interest rates. Bank Negara did a survey and found that the difference between the average lending rate and the average cost of deposit funds for banks in 1982 was 4.8 per cent, which was already considered high. But this margin widened to 6 per cent last year.

Apparently, it is the foreign

banks with small branch networks that are most guilty of this practice, with some paying interest as low as 5 per cent per annum for saving deposits, when their lending rates could be as high as 14 per cent.

For finance companies, many of which are owned by the banks, this gross margin was even wider, increasing from 6.24 per cent in 1982 to 6.47 per cent in 1983.

The Central Bank says such margins are too high to be good for the national economy, which is beginning to recover from the recession. It feels banks should play their role in this recovery by judicious application of interest rates to encourage savings and expand productive capacity.

Expanding on the Central Bank's concern, the influential Consumers Association of Penang argues that depositors could be losing out by as much as 51% ringgit last year, due to the widening of the deposit/lending rates.

Bank Negara is also worried about the decline in savings.

The BLR of Bank Bumiputra and Malayan Banking, the two largest banks, is pegged at 10 per cent.

It is too early to gauge the effectiveness of the BLR, although there are indications that banks are slowly moving their deposit rates up, while lending rates have stabilised.

Another area of concern is the heavy bank lending to the property sector, particularly office development in Kuala Lumpur, where signs of a glut are very evident. By 1986, it is estimated there could be an excess of 3m sq ft of office space in the capital.

Bank Negara is worried that with declining rentals and property values, some banks could be exposed, and this could trigger off a crisis.

Further lending to office development is therefore discouraged.

On the whole, Malaysian banks have undergone rapid expansion during the past decade, and this expansion is expected to continue.

Bank acquisitions, bank

mergers with industrial and corporate groups, as well as foreign bank restructuring will feature prominently in the coming years.

However, no new bank licences is expected to be given out. There are now 22 local and 16 foreign banks in Malaysia and this is considered to be more than adequate.

The paid-up capital and reserves of local banks rose strongly by 50 per cent to nearly 5bn ringgit at the end of 1983, after a 25 per cent increase to 2bn ringgit in 1982.

No other Malaysian corporate sector has grown as fast, prompting a banker to admit that "banking is the best business in Malaysia today."

Malayan banking is the latest bank to go to its shareholders for more money for expansion. It is seeking a record 630m ringgit through a rights issue and a convertible loan stock.

Part of this money will go to finance its 250m ringgit, 58-storey headquarters, which will be Kuala Lumpur's tallest building when ready in 1986.

The State Bank is the only bank in Australia guaranteed by the government of New South Wales.

It's worth remembering if you're planning to do business in New South Wales, Australia.

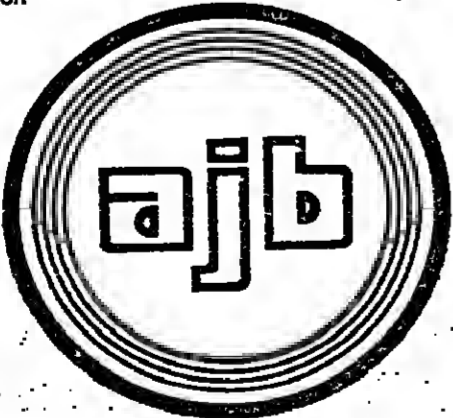
State Bank of New South Wales, London Branch: 110-112 Fenchurch Street, London, EC3M 5DR. Telephone: (01) 4818000. Telex: 8952331. State Bank of New South Wales, New York Branch: 529 Fifth Avenue, (at 44th Street) New York, NY 10017. Telephone: (212) 682 1300. Telex: 429964. State Bank of New South Wales, State Bank Chambers, 14-16 York Street, Sydney, New South Wales: 2000, Australia. Telephone: (02) 2660211. Telex: AA21550.

State Bank of New South Wales

Associated Japanese Bank (International) Limited

Extract from Audited Accounts

Table with 3 columns: Item, 29th Feb. 1984, 28th Feb. 1983. Rows for Share Capital, Retained Profit, Subordinated Loans, Deposits, Loans, Total Assets, Profit before Taxation, Profit after Taxation.



The Sanwa Bank Limited

The Nomura Securities Co. Ltd.

The Mitsui Bank Limited

The Dai-ichi Kangyo Bank Limited

An International Consortium Bank (Shareholders' aggregate assets well exceeding U.S. \$20 billion) Associated Japanese Bank (International) Limited 29-30 Cornhill, London EC3N 3QA Tel: 01-623 5661. Telex: 883661

Call for stringent policy to keep monetary expansion in check

Pakistan

MOHAMMED AFTAB
in Islamabad

THE PRESENT pro-business Government in Pakistan inherited "a socialised economy," but it knows that money is a many splendoured thing. It specially rings true, because it owns the entire banking system, the basic industry and infrastructure, and dominates the foreign sector—plus exercising a tight regulation of the economy.

record 28 per cent monetary expansion in Pakistan last year. It was double the 1981-82 rate. The Government is utilising the banking system for a \$5bn to \$6bn a year deficit financing, as well as to ration advances to private business, while it treats its own vast public sector, favourably.

Since 1982-83, the monetary expansion of 28 per cent pushed inflation to an annual 20 per cent, according to independent economists, while the Government admits only to a 10 per cent a year rise, based as its calculations are on an inadequate and faulty cost of living index.

DECADE OF BANKING GROWTH

Figures in Rs m.	1974	1983
1. GNP:	81,038	265,213
2. Total money supply (monetary assets):	28,000	144,423
3. Deposits:	18,397	100,258
4. State of monetisation (GNP divided by money supply):	24.51%	39.98%
5. Banking habit (ratio of money to GNP):	22.97%	27.45%
6. Banking development (ratio of deposits to total money supply):	65.70%	68.65%

banks dates back to their January 1, 1974, nationalisation by the then Prime Minister Zulfikar Ali Bhutto. All the Pakistani banks then came under Government ownership. They were later organised into five banks—Habib, National, United, Muslim and Allied.

year's operations was that the bank reserves rose to Rs 895m, which means 83 per cent over the previous year, while their equity rose to Rs 4.5bn, or 23.5 per cent compared to 1982.

All the nationalised banks, put together, increased their pre-tax profits by 26 per cent over 1982. Mr M. R. Khan, chairman of the Pakistan Banking Council (PBC) which oversees all the nationalised banks on behalf of the Government, says that "an improvement in profits took place despite of sufficient provisions to write off doubtful and bad advances."

Mr Khan says, the PBC is now closely scrutinising the assets portfolios of the banks, and is asking them to provide adequate reserves to cover losses and contingencies.

The banks expanded their advances to Rs 91bn, or 11.7 per cent during 1983. A key feature of the Government policy was to provide the working capital and term financing of small industrial units, small business, farming, as well as medium and large industry, services banks. But the Federation of Pakistan Chambers of Commerce and Industry (FPCCI), maintains that

private business "continues to remain starved of commercial credit," while the managements are providing funds more easily to the state organisations, under government prodding.

The nationalised banks' operations during year ended December 31 1983, in Rs m were:

Bank	Deposits	Advances	Investment
Habib	54,567	31,635	18,121
National	40,611	18,990	9,063
United	36,809	23,888	7,564
Muslim	15,765	10,246	4,477
Allied	6,87	5,108	1,746

As the Government and the central bank though belatedly, are asking the commercial banks to restrain advances, the latter complain that they are having to maintain large liquid cash because of the contractionary credit policy. It cuts into their profits.

The balance sheet analysis of these banks also indicates that the overall rate of increase in the pre-tax profits is slowing down: the expenditure on overheads, personnel and perks is rising; and losses on account of bad debts, outright frauds by the employees in Pakistani and overseas branches is sharply up.

PBC officials say that around 38,000 lawsuits are pending in courts across the country, for recovery of bank advances, while an additional 10,000 to 11,000 cases are to be brought to courts.

After urging the banks to improve their operations—and seeing no improvement over several years, President Gen Zia ul Haq decreed a new ordinance early this year. It is called "the offences in respect

of banks (special courts) ordinance 1984." The law is his hope to check frauds, embezzlements, forgery, criminal breach of trust, and other irregularities.

A sunny spot in Pakistan's money business, however, is the profit and loss sharing (PLS) accounts or Islamic banking, which President Zia introduced on January 1, 1981. These accounts, operating in the same bank branches which offer the traditional, interest-based, Western-style facilities, are pouring into the nationalised banks at the rate of Rs120m a week. From a zero on January 1, 1981, the deposits in the PLS accounts, as on December 31, 1983, boomed to Rs19.9bn, says Mr M. R. Khan.

Variation

He also feels satisfied that, with a rapid growth in Islamic accounts, their share in the banks' total return, or interest-bearing deposits, increased from around 12 per cent in 1981 to 23 per cent by the end of 1983.

The rate of annual profit on these accounts for 1983 was between 7 and 8.5 per cent. The variation reflects the varying overheads, and profit earnings by the banks through their own investment, and portfolio management.

Such variations are allowed by Government. This rate of profit, though still around 1 per cent a year higher than the yields available on interest-bearing deposits, is slowly declining, because of rising bank overheads, and saturation of the Government-approved portfolio in which alone, the Islamic deposits can be invested.


Pakistan's foreign trade, especially imports, are handled by major British, European, American and Middle East banks, who operate several dozen branches. They also provide a very efficient retail banking service. Each new foreign bank, wishing to do business in Pakistan, is permitted to open only up to three branches, so that the business stays with the local banks.

Confined to major cities only, such banks are unable to collect large deposits, because big city customers are interested more in obtaining advances, rather than putting their money in deposits.

The foreign banks make a muted criticism of the Pakistani authorities, on several scores. These include a bureaucratically-long process of permitting them to remit their net profit, lack of competition as a result of excessive regulation of the banking system, and a sticky interest rate which has remained unchanged for the past eight years, in spite of a high inflation rate.

These banks have also complained about foreign exchange (FX) operations. They point out that TT, OD and BG rates are daily issued by the central bank, which they feel is "confusing." They will want to have more flexibility over a fixed band, over or under the median.

These difficulties apart, the Government and the central bank are committed to welcome foreign private banks, which seem to gain good business, as the economy is likely to grow under the just-launched sixth five-year plan.



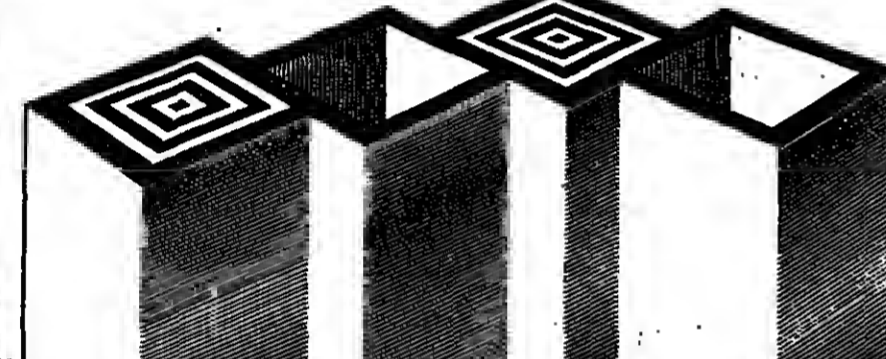
Cassa di Risparmio di Genova e Imperia

BANK ESTABLISHED 1846 IN GENOA (ITALY)

Balance sheet summary as at December 31, 1983 (in billion Lire)

CAPITAL AND RESERVES	286.5
TOTAL DEPOSITS	4,428.0
LOANS AND ADVANCES TO CUSTOMERS	1,517.0
INTERBANK DEPOSITS AND INVESTMENTS IN FINANCIAL INSTRUMENTS	2,883.0
PROFITS OF THE YEAR	10.7

(of which 4.9 billion went to charities and the support of social activities)



Over the last ten years, the Government-owned banks have reflected a considerable quantitative growth. It was partly spurred by inflation.

The five nationalised banks now operate 6,782 branches all over Pakistan, and another 176 overseas.

The per capita income in the country, and the deposits have more than tripled over the last decade, and are keeping in step with each other. The current per capita income is Rs 4.176, while the deposit (per person) is Rs 1.432.

Low savings

The bank operations continue to suffer from a low level of savings, in a society which is still quite poor, and still spending around 85 per cent of all income on current consumption.

Pakistan banking growth, over 10 years of nationalisation, according to the state bank, on a calendar year basis, is seen in the table above.

An analysis of commercial banks' operations shows that 36.8 per cent of their advances are extended to manufacturing, 28 per cent to the trade, 15 per cent to services, 6.5 per cent to agriculture, 3 per cent to construction, and approximately 11 per cent to other smaller sectors.

According to the annual reports of the individual banks for the year ended December 31, 1983, the overall deposits rose 36.4 per cent to Rs 159,7bn over 1982.

But, the growth in 1983 did not match the proportional increase in the capital base of the banks, which meant that the capital-to-deposit ratio was around 2.8 per cent. A healthy feature of the

A SIX per cent surge in India's Gross National Product last year, after a drop in the previous year, did not reflect in a sharp increase of business for commercial banks.

Two issues dominated Indian banking last year. First, the Reserve Bank of India (RBI) was keen on holding back expansion in money supply and domestic credit within the conditionality of the International Monetary Fund SDR 5bn loan. The Indian Government had agreed to a ceiling of 15 per cent for growth in broad money (M3) and 17.6 per cent for domestic credit for the year to March, 1984.

Commercial banks had lent more than Rs 10bn between June and December, 1983 for foodgrains stockpiling.

The axe had fallen on loans to other sectors to keep the overall domestic credit within the IMF ceiling. Industrial recession made this task easy for the RBI. Demand for bank credit lessened from sectors such as steel and automotive industries, which had much spare capacity.

Secondly, inflation returned to the Indian economy with a bang last year. The Government's economic survey for 1983-84 says the decline in prices after the bumper harvest was rather weak and the upturn was resumed even before the onset of the lean season.

The don't-dig-it inflation upset the process of selective refinance heralded by a down-

India

R. C. MURTHY
in Bombay

the-line cut in interest rates on bank loans early last year to give stimulus to the Indian economy.

The marginal rate of 19.5 per cent interest charged to certain corporate borrowers was reduced to 18 per cent. The policy of liberalisation had to be halted midway and priority given for counter-inflationary measures.

But the anti-inflationary package could not include a lift in interest rates on loans to curb effective demand for bank funds.

In India, the instrument of bank rate is not used frequently to vary the cost of credit, which has been kept high reflecting scarcity of capital.

Also, market forces do not determine the interest rate structure, which is fixed by the Reserve Bank.

Having reduced the interest rates on loans in March 1983, the monetary authorities relied on the side restrictions to control the flow of funds. The RBI raised the cash reserve

ratio of banks in stages by a combined 1.5 percentage point to 8.5 per cent of bank deposits. Besides, it imposed 10 per cent of deposit growth late last year to siphon off excess liquidity with banks.

In all, Rs 22bn out of Rs 76.6bn deposits mobilised by banks in calendar year 1983, were frozen.

The deposits growth of commercial banks, 95 per cent (by assets) of which is Government owned, was only 14.7 per cent to Rs 887,48bn in 1983. The share of time deposits in total bank deposits increased spurred by high interest rates. This pushed up the cost of funds for banks.

The emphasis on the supply side to slow down bank credit acceleration resulted in a squeeze on profitability of banks.

Apart from resources freeze, the drop in interest rates on loans narrowed the spread between the average cost of deposits and average return on loans.

There are two other factors pointing to a steady decline in profitability. Banks are under pressure from the Government to lift leading to less-profitable, but socially desirable, priority sectors—agriculture and rural development—to 40 per cent of total by March 1983.

They should find customers for Rs 22bn in five years in the countryside. Also, there is the steady increase in deposit interest rates, as part of the

overall trend of high interest rates to lift domestic savings, which were at the peak of 22.3 per cent of GDP last year. Distortions are seen in the interest rate structure after the seven-year debenture rate was raised 1.5 percentage point to 15 per cent last year. The hike was to facilitate the corporate sector raise long-term funds and cut dependence on short-term bank finance.

But it worked to the detriment of banks. More than Rs 9bn were mobilised by companies in equity and debentures in the year to March 1984.

Comment

Mr B. V. Sonalkar, chairman of Indian Banks' Association, says there was a diversion of funds (from the banking system), which depressed bank credit and profitability.

"Reduced outtake of bank loans by the corporate sector would mean loss on highly profitable business," he says.

But the annual reports of banks do not reflect this disheartening picture. First, foreign exchange business is highly profitable and subsidises domestic losses. Every Indian bank is keen on expanding overseas.

Secondly, Indian banking law permits banks to keep secret reserves, on the pattern followed by British clearing banks until recently. As a result, the balance sheets of Indian banks may not reflect the true position.

Mood of deep anxiety over foreign exchange famine

Philippines

EMILIA TAGAZA
in Manila

UNLIKE MOST other economic activities in the Philippines, commercial banking remained profitable in 1983, the worst post-war year for the national economy.

There was a continuation of the profitable operations in the first quarter of this year; yet the prevailing mood among commercial banks is one of deep anxiety, presumably on the realisation that the unique earnings performance was aided by extraordinary factors which may not always be present in their operations.

The banks know the money they have made and expect to make can be wiped out if, as now seems likely, the present severe foreign exchange famine leads to more and bigger corporate bankruptcies.

Danger of collapse

Many of the banks are saddled with slow-moving and non-moving accounts, including those of financially-troubled companies in danger of collapsing or which have gone out of business. The Government has set at 20 per cent the maximum ratio of bad loans to total loan portfolio. Some banks are known to have a ratio of up to 50 per cent.

While the computation makes no distinction between bad and potentially bad loans, there is cause for grave concern. Of

late there has been an increase in the number not only of borrowers falling behind schedule in their payments but also of those not paying at all. As a result banks tend to emphasise collection and not the extension of loans.

Last year commercial banks registered a combined net income of 2,300m pesos (\$164.2m), up 551.2m pesos over the 1982 figure. Yet in any given year there is no way banks can be in the red, assuming proper management, even under conditions which are bad for almost everybody.

Banks sell a commodity—money—which is very much in demand whether in a recession, inflation or stagflation. They also pay only 9 per cent per annum on savings deposits and between 12 and 14 per cent on time deposits, whereas they charge between 18 and 25 per cent on loans. One has to be a prime borrower to be entitled to the lower charge.

But even with an average spread of 10 per cent, commercial banks could not have earned as much as they did last year without gains derived from non-devaluing loans. In the case of Philippine National Bank, the foreign exchange-related income jumped to 640m pesos.

The local currency is expected to be devalued again this year, but banks cannot look forward to the same windfall as last year. Then the rules allowed them to hold dollars within certain limits—sixty per cent of the total—while the enforcement of the rules enabled some of the banks to hold more dollars than they should. Since

then the rules have been changed so that devaluation profits will be reduced.

Under trade and exchange controls, the central bank (CB) controls the Central Bank (CB) virtually confiscates all foreign exchange receipts which are earned through banks and derived from export and service transactions. These receipts go into a dollar pool from which CB allocates dollars for payment of selected imports and for servicing certain foreign loan obligations.

Forecast

Originally, controls were supposed to last only up to last January. Based on official indications, the present pooling allocating machinery will remain in place after next December. Even without foreign exchange-related gains, Commerce Bank of Manila increased its net income in this year's first quarter, while Philippine Bank made turnaround to a net income from a previous net loss.

But the results can be considered deceptive, because both have the advantage of relatively cheap sourcing of funds. Majority ownership has changed hands from the Hiris group to the Government Service Insurance system in the case of Commerce Bank, and from the Silverio Group to Philippine National Bank in the case of Philippine Bank.

Philippine Bank has been given cash advances by the Central Bank with an interest charge of 12 per cent yearly—plus equity funds by FNB with a fixed dividend rate of 14 per

cent. Last December, after CB increased the required bank reserves against deposit and deposit sub-limits liabilities, inter-bank rates soared, to 55 per cent at one time, from an earlier 10 to 20 per cent range. The rates fell later, reaching an average of below 10 per cent until last March. The following month the average began going up again. In early May call loans at one point cost bank borrowers 80 per cent.


Yet shouldering such a cost load for overnight money is not the worst of the banks' worries. By slowing down on lending they can correct reserve deficiencies, as happened early this year. The greater concern is over bad and potentially bad accounts, which are the biggest danger to viability.

For example, Delta Motor Corporation, which has stopped its car and truck assembly, cannot pay debts of at least 1,600m pesos. The troubled Bassy Mining Corporation owed various creditors, namely state-owned banks, as much as 1,500m pesos.

Another troubled company, Marinduque Mining and Industrial Corporation, has a total indebtedness of 16,500m pesos. This alone is roughly seven times more than the combined net income of commercial banks last year. Marinduque has shut down its nickel, manganese and copper mine and mill.

The only comforting thought for banks is that official policy allows failures only among small entities. The big ones are being bailed out.

ASK




Turkey.
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Asia/Pacific

WORLD BANKING 29

Admission of foreign institutions still poses a thorny problem

Australia

MICHAEL THOMPSON-NOEL in Sydney

AUSTRALIAN banks are moving from an era of protection and control to a freer and more open financial environment. The forerunners of this change in Government thinking—the floating of the Australian dollar and a freeing of the exchange controls—were introduced late last year, while the hard facts of a breaking of the banks' monopoly on foreign exchange dealing and the lifting of restrictions on the term of deposits which they can accept will be a reality by August 1. The real test, to be posed by the introduction of foreign banks on fully competitive terms, remains still until the July conference of the ruling Labor Party determine whether new entrants prove acceptable to the more sceptical wings of the party.

demand for domestic banking authorities is expected to become less sharp. The offshore deal is subject to Parliamentary working party scrutiny as well as study by senior Government departments to determine the blend of benefits and sacrifice, although it retains considerable support at the political and banking industry level. Meanwhile, the introduction of foreign banks as full competitors in the Australian market remains a thorny question despite the support it has from the Treasurer, Mr Paul Keating, who sees the need for the new-found freedoms for the market to be balanced by the admission of new players. While numbering a dozen, the banks boil down to a Big Four—Westpac, NAB, ANZ and Commonwealth—although the state government-owned banks are trying to develop as more dynamic forces in both the domestic and international markets. There they gain by the almost sovereign status they hold through their Government parentage.

Big banks in favour

The major banks favour the introduction of foreign banks as branches of the international parent rather than as modestly capitalised local subsidiaries with partners of less than prime standing in banking terms keeping one eye on international reciprocity and the other on the need for complete trust in inter-bank dealings.

Acting against this is the suspicion of the international banks among sections of the Labor Party as well as Treasury concern over its ability to monitor and control monetary flows should it hold no direct power over the new bank entrants. These conflicts between the ideal in terms of competition and prudential standards and, on the other hand, the political and bureaucratic pressures suggest that an answer will not be found immediately. Meanwhile, even without the foreign threat, greater local competition is sure to evolve as the major life office and superannuation institutions push for an increasing share of the financial markets. The Australian Mutual Provident Society, the largest local institution, plans to team with an unnamed commercial bank to form a full-service domestic bank. The AMP has a formidable base of 2m policyholders, a loan portfolio of around A\$2bn plus equity involvements and strong relationships with almost all Australia's leading companies and a merchant network. On the other hand the merchant banking groups, already facing a contraction in their competitive ability through the loss of their near-monopoly of short-term money markets, face a further threat with the reshaping of Hill Samuel Australia into Macquarie Bank. This is to be licensed under existing domestic bank-

ing rules which limit individual shareholdings to 10 per cent. Macquarie will have only a relatively modest capital base and will be seeking to employ its know-how skills to generate fees from the merchant and investment banking areas. It will also bring the funding advantage it enjoys as a result of the ultimate backing of the Central Bank into play where necessary. Commercial lending As such, it will pose no great threat to the big banks in the more straightforward areas of commercial lending. Meanwhile, despite past restrictions on growth in credit and limits on maturity of deposits and interest charges, the banks have maintained a relatively steady 38 per cent of the assets of financial institutions in the past five years. From this unique position they are preparing for domestic competition by moving rapidly in the development of electronic funds transfer at the point of sale and the automation of their banking services, as well as new products in the funds management area, to boost business and margins through their branch networks. At the same time, the pressure for international business remains strong as the major banks accept that any further growth will have to come from the short-term money market arena is subject to broader competition both from new entrants to the banking scene and the range of consumer-level non-bank financial institutions.

Tough regulations to restrict lending and credit facilities Government controls bite harder

New Zealand

DAI HAYWARD in Auckland

NEW ZEALAND banks now operate under greater controls, restrictions, regulations, than they did even in the regulated conditions of the early 1970s. Tough government regulations are aimed at achieving two results—to restrict lending and credit and at the same time to bring down interest rates. Bankers say these two objectives are contradictory and unworkable, but Sir Robert Muldoon, Prime Minister and Finance Minister, insists that the banks try to achieve this. Harsh penalties have been imposed on banks and finance houses which fail to meet the government's tough requirements. First, there were curbs and limits on interest rates. Home mortgage interest rates were arbitrarily reduced from 18 per cent or higher for first mortgages to 11 per cent for first and 14 per cent for second or subsequent mortgages. The new rates originally applied to new mortgages, but as soon as the dust settled the Government put pressure on official lending institutions to extend home mortgages. One result is that the flow of finance into the house mortgage market, through banks and all but dried up.

Leading bankers claim that there is widespread evasion of Government controls, although of course, every trading bank denies that it is involved in any such manoeuvres. But some institutions are desperate to get money to meet their reserve asset ratio requirement and it is said they are finding ways around some of the restrictions. One banker commented: "There are other ways of giving depositors benefits than just by paying a certain interest level." Special rates Deposits of more than NZ\$500,000 fall into the commercial area. Such sums are not so effectively controlled and can attract special rates. Now, however, sums as small as NZ\$50,000 are attracting special rates from finance houses which must find capital to meet their obligations. The latest threat to the banking community is for across-the-board interest rates on all sums limited to 14 per cent for trading banks and 17 per cent for non-bankers. Privately, bankers are forecasting that in June interest rates will rise as institutions have to borrow to meet their Government obligations. "There is no way we can borrow at 14 per cent and lend at 14 per cent," said one banking economist. The number of merchant banks in New Zealand is

steadily increasing. A new merchant bank can avoid Government regulations on the level of lending because it has no previous record. For the first 12 months it is not limited to the 1 per cent increase allowed other banks because there is no previous year's measure of its performance. Merchant banks recently received the foreign exchange dealer licences they so eagerly sought. This, too, has encouraged the setting up of new merchant banks. The current crop of controls began in 1981 and have steadily become more severe. The 1982 Budget said that the control would come off when inflation was beaten. Bankers point out that now the Government claims to have reduced inflation dramatically the controls are worse than ever. Trading banks are also unhappy because they are losing business to fringe financial institutions, such as lawyers house mortgage lending, and to merchant banks. Bankers are privately forecasting serious problems for the New Zealand economy as a result of some of today's financial policies. They say the Government is developing "frightening contingent liabilities" which will have to be met by taxpayers and governments in the future. We are, said one, "passing the bill to the future."

Plan to increase efficiency bound to cause friction

Now the Government wants to restrict the level of lending and also reduce interest rates on other lending. To control the limit of bank lending the Government has introduced several restrictions over the banking system. Banks and finance houses are required to carry a certain proportion of their reserve assets in Government stock. This proportion has been regularly increased over the past 12 months. The banks are also limited in the expansion of their level of lending to 1 per cent per month. This is not cumulative and banks which exceed the limit in one month cannot even up by keeping under the maximum the following month. Reserve asset ratio Earlier this year, when banks exceeded their 1 per cent increase in lending, the Ministry of Finance punished them by increasing the reserve asset ratio. At one stage this reached 31 per cent. Bankers say the ratio has actually been set at a higher amount than their cash reserves, and banks have been forced to borrow from the Reserve Bank so as to have enough funds to invest in Government stock. Merchant banks and finance houses face the same restrictions. Some of the finance houses, which ignored the Government's guidelines on lending incurred the wrath of the Prime Minister in early May. He increased the amount the offenders had to place into Government stock by the amount they had gone over, 1 per cent here—and made this penalty effective until next January. Offenders also face a penalty of NZ\$10,000 for each day they

THE SOUTH KOREAN banking system is about to undergo changes that the Ministry of Finance hopes will both raise the efficiency of domestic banks as well as answer foreign banks' attempts to achieve equal standing with South Korean banks. The two-edged policy starts this year and continues until 1986 as foreign banks are gradually allowed to enter markets formerly the preserve of domestic banks. Against increasing competition, the Korean banks are expected to modernise their management and operations more quickly than in the past. As a first step in mid-May, members of the banking industry were reorganised into a new association named the Federation of Korean Banks. The chairman, Mr Kim Joon-Sung, as a former Deputy Prime Minister and Minister of Economic Planning as well as a former Governor of the Central Bank, brings impressive credentials to the job. The exact role of the federation during the structural changes planned for the banking system is still unclear, however. The previous banking association had little to do with determining policy but it did set fees and commissions for various banking operations. Although foreign banks will be invited to join as associate members, ostensibly to protect their interests, their non-voting status may present difficulties. The Ministry of Finance's 25-page policy statement indicates that "practically all discriminatory restrictions imposed on

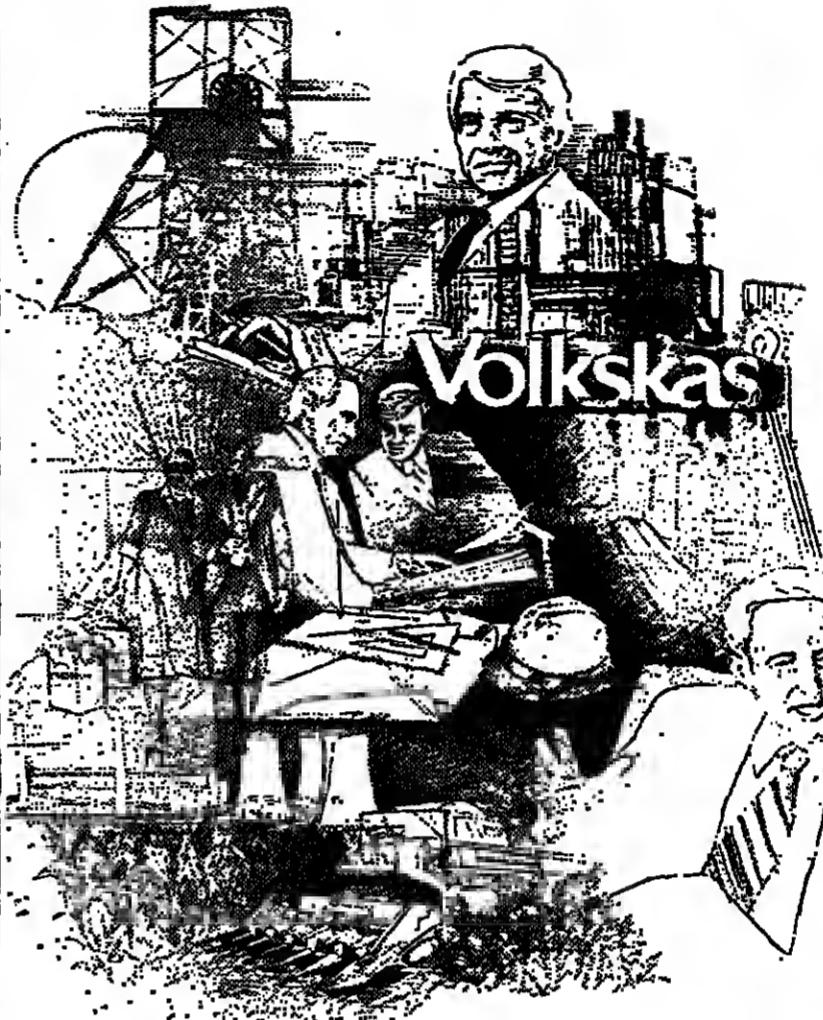
foreign banks will gradually be phased out for true national treatment." Along the way, foreign banks should encounter more opportunities as well as incur new constraints. Foreign banks, for instance, will gradually be able to set up trusts and, more importantly, access the Central Bank's rediscount window for export and import financing over the next two years.

South Korea

ANN CHARTERS in Seoul

But they will probably be required to make some loans to encourage, such as small and medium industries or joint ventures. Reforms in the banking system are bound to cause friction. Because the Government returned the Central Bank's redress to private hands only last year, there has been some concern, expressed in the local Press, that the banks need more skills before they are ready to compete. Others, including academics, contend that liberalisation is inevitable, so it is better to proceed before the domestic banks fall further behind in adopting modern techniques. There is little doubt that the steps toward equal treatment will be closely watched. The

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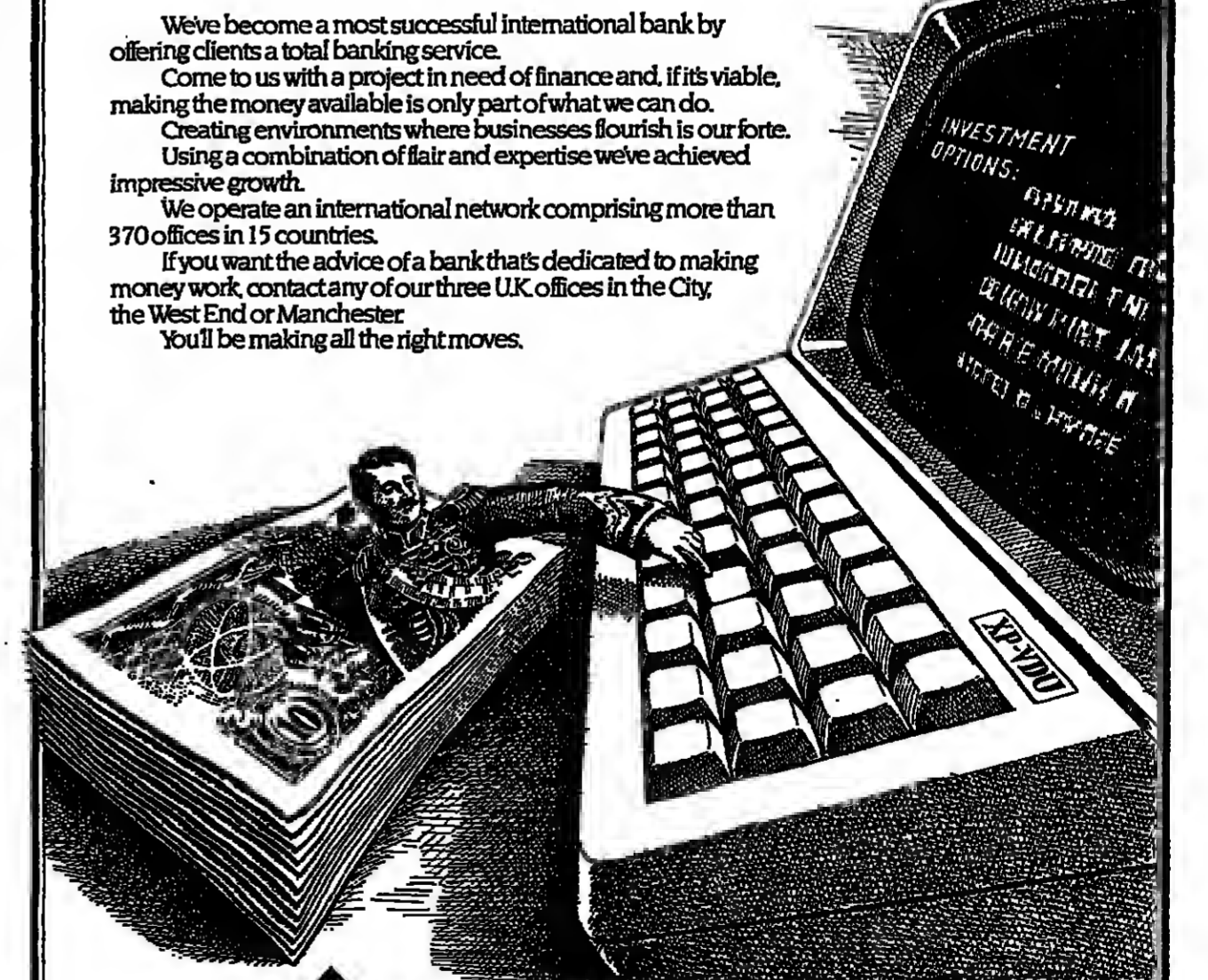
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WORLD BANKING 30

South America

Where East meets West



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Governments in Latin American countries are still struggling with turbulent conditions in the domestic banking sector, as FT correspondents report here and on the following page

Austerity is the keynote

AFTER seven years under construction, the impressive new regional headquarters in Rio de Janeiro of the Brazilian Central Bank will be inaugurated in July. But word has already gone out that it must be a quiet ceremony, with none of the pomp traditionally surrounding bank openings in Brazil.

Now the keynote is austerity and thrift. Average banking profits last year fell below the rate of inflation for the first time in over a decade; and the current outlook for what was until recently the best performing sector in Brazil is worse.

Not that domestic banking in Brazil is in any way static or uneventful. On the contrary, automation is proceeding apace, pulled along by fierce competition between the country's top two banks, Bradesco and Itau. Frequent switches in Government requirements from the commercial banks add to the competitive pressures and induce short-term thinking.

Turbulent conditions in the open market have often been decisive in shaping balance sheets. For example, those banks that were alert enough last year to calculate that devaluation of the cruzeiro would outstrip inflation made a killing on exchange-linked Treasury bills.

Banco Itau admitted that 44 per cent of its 1983 profits of Cruz 112bn (U.S.\$ 114m) came from "exceptional factors" such as these. Bradesco attributed 30 per cent of its Cruz 138bn (U.S.\$ 140m) in net profits to the same source.

This year, under Sr Afonso

Brazil
ANDREW WHITLEY
in Rio de Janeiro

Celso Pastore, the new Central Bank governor, those particular Treasury bills, known as ORTN's, are being withdrawn in favour of shorter-term bills linked to "monetary correction," the Government-set system of monthly adjustments to inflation.

Meanwhile, many commercial banks now face losses from the steep rise in their deposits held by customers in the form of pre-fixed Certificates of Deposit at a time of declining interest rates.

A result of these pressures could well be more shotgun marriages arranged by the Central Bank between struggling institutions and their healthier competitors. Comind, a leading

Sao Paulo bank, shot up the "ranking" table by leaps and bounds last year on the strength of its acquisition of two banks in difficulties, Residencia and Comercio.

But the main preoccupation of the Central Bank at present is not the privately-owned banks but the state development and commercial financial institutions. A combination of gross over-indebtedness in foreign currency, rising volumes of liquidated assets, and, in some instances, weak management have combined to create a parlous situation in the state sector.

Total indebtedness of the state banks to the federal monetary authorities is now about Cruz 650bn (U.S. \$465m) at current exchange rates. Assets in liquidation, as a percentage of all loans, doubled between 1982 and 1983 for state commercial banks and jumped 140 per cent for the development banks.

Even so, sharp variations are showing up in the performance of individual state banks. Banpar, in Sao Paulo, produced excellent results in 1983, with pre-tax profits rising comfortably above inflation to \$39m. Banerj, its Rio de Janeiro counterpart, which is heavily burdened by loans to the Rio city Metro, lost the equivalent of \$26.5m.

Banco do Brasil, the federally-owned giant of the Brazilian banking system, and one of the top 20 banks worldwide, is big enough to ride out

any new strains on its resources. But the Government, nonetheless, felt it necessary in March to strengthen the bank's position, through a U.S.\$61m share issue, equivalent to 10 per cent of its capital. Recently Banco do Brasil was also authorised to issue CDs and thus compete directly with the private banks in all areas.

Another source of concern for the Government is the housing finance sector following the collapse in the past 18 months of three leading building societies. All were privately owned and their demise after Government intervention leaved the sector even more firmly in the hands of Brazil's major state conglomerates.

For most of those foreign banks which were already established in Brazil before the gates closed, the country has continued to be a source of good earnings—and a few nasty shocks.

Citibank, whose lending in Cruzireos in 1983 came to Cruz 15tr (U.S.\$5bn), twice that of its next rival, still continues to perform well in the teeth of the foreign debt crisis. Net profits on its operations in Brazil were above inflation last year.

In contrast, Banco Lar Brasileiro, the Brazilian arm of Chase Manhattan, suffered a number of exceptional losses on its loans portfolio and barely squeezed into profit at the year-end.

Inflation undermines progress

Argentina

JIMMY BURNS
in Buenos Aires

A BLOCK of buildings in Buenos Aires's San Martin Street—the local "City"—was recently demolished as part of a redevelopment project.

As the dust cleared, passers-by could make out against the skyline a mass of twisted telephone cables spread out like a giant fish net. But the state-owned National Telephone Company installs very few overhead wires and they are thin. So where did the giant "fish net" come from? The answer gives us a clue as to the nature of the Argentine banking sector, for there exposed, as a result of a rather shoddy building clearance, was part of the "overground" telephone network used by the wily world of financial speculation which in recent years has been the lifeblood of the "City."

That the phone cables, remained, after everything around them had toppled to the ground, was an apt image. For all the talk of political and economic change since the end of military rule and the assumption of President Raul Alfonsín last December, the "City," in so far as its less reputable activities are concerned, has remained doggedly resistant.

Since the end of the Falkland War, two years ago, Argentine officialdom had tried to exercise a large measure of control over the banking sector which in the years after the 1976 coup, was characterised quite openly by dubious lending practices and a reckless scramble for profits but no substantial contribution to economic development.

The continuity in official banking policy has been demonstrated under the new democratic regime by the maintenance of two principle mechanisms of control: the setting of interest rates of seven-day and 30-day deposits to officially fixed maximums and the introduction of a high minimum reserve requirement.

Underpinning recent reforms has been a refinancing of debts contracted by private sector companies through the issue of bonds by the Central Bank. This in turn has taken the strain off the loan portfolios of local banks, some of which had looked shaky.

In theory, the aim has been to clear out the system and give it the necessary stimulus to accompany economic growth. In practice, Government policy has been undermined by its inability to control inflation.

The continuing rise in the cost of living—an increase of over 500 per cent in the past 12 months—has been the main factor hindering the pecking development of the Argentine banking sector.

There has been a dramatic shift in funds away from short-term deposits to inflation and exchange rate-linked deposit accounts, both of which have minimum maturities of 180 days. The share of total deposits represented by the latter now stands at over 23 per cent compared with 12 per cent last year. But this is perhaps not even half the story. Higher inflation has encouraged hoarding outside the financial system by buying off potential depositors, for whom 180 days of immobilised money seems like a lifetime.

Overall deposits have thus fallen dramatically, with Argentines still showing a tendency to buy up physical assets rather than save.

The most visible result of this contraction over the past year has been the closure or intervention by the Central Bank of over 20 finance companies and credit co-operatives for whom short-term deposits had represented the main source of funds.

This does not explain, however, why the profits of larger banks have kept up. Nearly all

the bigger banks are highly active in the interbank, "call" and external bond markets. Foreign banks, meanwhile, are continuing to charge high commissions on letters of credit to importers.

But the least visible and currently most lucrative of operations is officially illegal. This consists of cross lending behind the scenes between companies for which an agent acting on behalf of a bank acts as broker. It is operated on the basis of interest rates which fall outside Government control.

It is estimated that as much as 30 per cent of loans circulating in the system are transferred in what is known locally as the "parallel market."

Contrast

Since taking power, the Radicals have lowered the minimum reserve requirement outside the Buenos Aires area in an attempt to attract funds to poorer and less developed parts of the country and encourage regional development. The two largest commercial banks, both state-owned, the Banco de la Nacion and Banco de la Provincia de Buenos Aires, have made some progress in this direction under their new management.

This is in strong contrast to the banks' main priorities in the days of military rule, when the earliest profits were to be gained from branches abroad attracting foreign funds for on-lending to Argentina-based customers, including the armed forces themselves.

Even so, there are some banks which do not feel too bound by the "ethical" requirements of Sr Alfonsín. They have been using their regional branches for the acceptance of cheap funds which are later on lent back to the "main office" in Buenos Aires.

A low level of confidence

Chile

MARY HELEN SPOONER
in Santiago

THE PAST three years have not been good for the Chilean domestic banking system, whose fortunes chronicle the rise and fall of General Augusto Pinochet's experiment in free market economic policies.

In May 1981, 25 financial institutions, including branches of international banks, were caught on the hop when a food conglomerate, the CRAV sugar group, to which they had lent over \$200m in credits without adequate security, collapsed.

Allegations of impropriety and the subsequent public outcry, along with a two-month lull to foreign lending to Chile, prompted the authorities to look again at the cosy relationship between many Chilean banks and their affiliate companies.

Chile's current banking code, passed in August 1981, imposes stricter accounting practices and tougher collateral requirements for loans, specifically aimed at ending the practices of financial inbreeding between banks and their parent companies.

Seizures

Two months later the banking superintendency, citing violations of the code, seized administrative control of eight banks and finance companies. The authorities guaranteed depositors' accounts while proceeding either to liquidate or sell the institutions.

Since then a total of 19 banks and finance companies have come under Government intervention and about two dozen bank executives have been jailed for banking code violation.

The detainees included Javier Vial, the former director of the country's largest private bank, the Banco de Chile, the former banking superintendent Boris Blanco, and the former Finance and Economy Minister Rolf Luders.

All three were arrested on fraud charges involving the illegal transfers of funds from a shadowy Panama-based bank affiliated with the Banco de Chile's parent conglomerate.

This has not helped to increase public confidence in the banking system, especially in a country where the level of internal savings has traditionally been low. But since last year a financial legislation advisory commission has been preparing a new law designed to help Chilean banks to recover from their burden of bad debt portfolios and to prevent any repetition of earlier abuses.

Assurance

The advisory commission's president, Sr Carlos Urenda, has said that the new law will not be so strict as to prohibit bankers from having other business properties. In a country like Chile, with an under-developed financial system, finding banking investors with no significant holdings in private companies would be extremely difficult, he said.

Chilean authorities have already said that the five viable banks and finance companies subject to government intervention in January last year (which include the Banco de Chile) would not be sold to foreign buyers, despite interested inquiries from Bank of America and other financial institutions. Of the remaining 14 finance companies and banks where the government has intervened, all have been liquidated, sold or merged with other institutions.

The short-term solution for the Banco de Chile and other institutions currently under administrative control—but deemed viable by the banking authorities—is likely to be continued state administration.

One proposal under study by Sr Urenda's advisory commission is a plan whereby the state would officially take control of most of the holdings of the Banco de Chile and other surviving financial institutions, selling off a fifth of its shares to private buyers every year.

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Challenge of a new capital market

MEXICO'S banking system, in its first full year after nationalisation, finds itself with an embarrassment of riches at a time of low credit demand and over the coming year faces the challenge of a new capital market developing around its former financial service subsidiaries, which the Government is to sell off to the private sector.

Doubts about the future of the 90 private and mixed capital banks (now nationalised into 29) which the outgoing administration of Sr. Jose Lopez Portillo expropriated at the height of Mexico's financial crisis in September 1982 have been dispelled as small savers have rushed to swell the coffers of the banking system. Total deposits have more than doubled in the first year and a half of President Miguel de la Madrid's Government.

But while demand for credit has picked up as evidence grew that the Government had broken the inflationary spiral and turned round the country's external accounts, it is still rising at only a quarter of the rate of deposit growth. Last year the inflation rate was brought down to 80.8 per cent from 100 per cent in 1982; by dint of radical, IMF-inspired inflationary policies a current account surplus of \$5.0bn was achieved against 1982's \$4.9bn deficit.

Interest rates began to come down in the second half of 1983 and dropped six points in the first quarter of this year to the average cost of money benchmark of about 51 per cent (to which the banks add on margins of up to 30 per cent). As positive interest rates on deposits returned the banks tumbled in an extra Pesos 1,726.4bn (about \$10bn at current exchange rates) in 1983, against total deposits of pesos 2,238bn at the time of nationalisation and a 1982 increase of pesos 523.3bn.

The tempo accelerated in the first quarter of this year with deposits and private investment in Treasury bills growing by pesos 769.4bn.

Credit growth has not kept pace. New loans totalled pesos \$1.5bn in 1982, pesos 437.7bn in 1983 and pesos 201.6bn in the first quarter of this year. The gap is explained by the difference in the rate on short-term deposits, now at 48.5 per cent, and an average minimum charge on commercial loans of 57.58 per cent, by the heavy

levels of capital investment carried out before Mexico's financial collapse and most of all by growing evidence that the Government will miss its inflation target for this year.

The target was 40 per cent, whereas consumer prices have already risen 21.8 per cent in the first four months. Interest rates began to rise again in mid-May and the shift into longer term deposits evident in the second half of last year—cited by the Government as evidence of returning confidence—has expired into reverse. Speculation has grown that the 13 centavos a day slide in the peso will have to be accelerated.

Mexico

DAVID GARDNER
in Mexico City

The banks' low level of business has cut into profits, already reduced by the need to provide for rising bad debts, estimated at about \$1bn last year. Bank earnings in 1983 were static in nominal terms and sharply down in real terms at pesos 22.5bn.

These earnings rest largely on lower levels of remuneration from financing the public sector deficit, through the obligatory deposit of 49 per cent of funds with the Bank of Mexico and through Treasury bills. Though the deficit was more than halved last year to 8.5 per cent of GDP, a question mark hangs over whether the banks will have the resources to respond to a major revival in credit demand when the economy shows real signs of recovery.

While the banks' excess liquidity is temporary, a more fundamental challenge awaits them as a result of the Government's decision to sell off shares in 339 of the 483 companies in bank portfolios. Overriding strong opposition from the nationalistic Left within the ruling Institutional Revolutionary Party (PRI) and the largely PRI-controlled unions, the Government has decided to return to the private sector the banks' financial service subsidiaries, which include broker-

age houses, insurance, leasing and bonding companies.

This decision offers the private sector a way back into the financial system, in tune with the de la Madrid Government's efforts to re-establish business confidence, which was rocked by the banks' take-over.

While the Government has yet to announce exactly how and at what price the financial companies will be privatised, the decision to return them opens up the possibility of a parallel capital market developing in competition with the state banking system.

The brokerage houses and insurance companies could now become an important source of seed capital, competing to provide funds for industry.

Indeed there are already signs among brokerage houses established since expropriation and those that were unconnected with the banks of a widening of traditional activity. An unregulated intercorporate commercial paper market has begun to develop, for example, as a way of sidestepping the gap between deposit and lending rates.

"The brokerage houses will provide the ability to offer a wide range of investment and investment banking services, while the insurance companies—theoretically—could provide important financial muscle for the brokerage activity," says a leading local broker.

That qualification—"theoretically"—hints at a wide range of doubts still attached to the privatisation. First, Treasury officials say privately that the nationalised banks will still have the right to set up new financial services subsidiaries of their own. Secondly, it is not yet clear whether buyers for the subsidiaries, or indeed the industrial assets, will emerge.

Private investment has fallen 45 per cent over the last two years and Mexican businessmen continue to demonstrate their suspicions of state encroachment by keeping an estimated \$20bn on deposit abroad and a further \$25bn, officials believe, in foreign property.

Third, it is too early to judge whether the privatisation measures will succeed in restoring business confidence by beginning to establish demarcation lines between the public and private sector and so tempt back some of those billions held abroad.

Upheaval in Black Africa's key market

FOR ONCE, even the banking sector in Nigeria has failed to escape the twin effects of economic recession and political upheaval which have dominated all forms of activity over the past year.

Yet onshore and offshore, the profusion of banks operating in black Africa's most important financial market have still managed to survive in better condition than most of the businesses and trading houses they represent.

Leading bankers in Lagos fear that the worst may be still to come, as institutions which have known nothing but heavy and often unco-ordinated expansion over the past decade have to learn how to deal with increasing provisions for bad debts, tighter credit ceilings, and narrower interest rate margins.

If the present austerity persists for the next three or four years, the banking sector is likely to emerge slimmer, fitter, and more competitive.

In the five months since Nigeria's soldiers decided to seize back power from the civilians they installed in 1979, accusing them of chronic corruption and mismanagement, the banks have had to cope with two government-imposed upheavals.

First, they were called on to take over the entire systems of foreign exchange allocations and the simultaneous cutback in public spending by state and federal governments, even the priority agricultural sector suffering from irregular and scarce imported inputs.

Then, most recently, they have been required to implement the traumatic exchange of old bank-notes for new—an operation designed to catch out currency hoarders and black marketeers, and drastically reduce the amount of cash in circulation, but guaranteed at the same time to cause massive disruption and confusion throughout the economy.

At the same time the banks have had to live with the uncertainty over what purges and transfers of top management and staff might be ordered by the new regime, which remains the majority shareholder throughout the financial sector.

New boards have yet to be appointed, but the first few

(\$3.4bn) in December 1980, to \$6.6bn in December 1981, and \$10.5bn by the end of 1982, a trend which showed no significant sign of slackening last year.

As for international lending to Nigeria, the country's distinction has been to run into a short-term rather than medium and long-term financing crisis. Medium-term external debt, while not exactly healthy, still appears relatively modest in comparison with the big borrowers of Latin America and Eastern Europe: something less than \$11bn in disbursed loans, with a further \$8bn undisbursed.

The problem has been on the short-term financing front, where the escalating balance of payments problems from 1982 onwards caused an ever increasing accumulation of arrears on trade payments, including letters of credit, and open account trading, whether insured or uninsured by the official export credit agencies.

The Central Bank simply slowed down the approval of foreign exchange transfers to stay within its foreign exchange receipts from month to month, maintaining an artificial level of foreign reserves as close to N1bn as it could manage.

With arrears on letters of credit totalling more than \$200 million by mid-1983, the international banks were the first to agree to rescheduling. Two deals agreed with a total of more than 60 banks in July and September provided for repayment of the arrears over three years from January 1, 1984, including an interest rate of 11 per cent over the London Interbank Offer Rate (Libor).

In the event, the deal done by the banks has proved to be on considerably better terms than the rescheduling now being negotiated both with export credit agencies and uninsured creditors.

They are likely to have to accept a deal for repayment of something between \$4.5bn and \$6bn over six years, with a 21 year grace period, and carrying an interest rate only 1 per cent over Libor.

The result has been considerable resentment in the business community at the discrimination in favour of international banks, most of which have no direct involvement in Nigeria. Part of the banks' agreement provided for them to maintain their existing lines of credit to Nigeria, and even open new ones if they saw fit.

Nigeria

QUENTIN PEEL

The revised budget, published this month, raises minimum interest rates by up to two per cent, although overall the level of interest rates remains far below an inflation rate conservatively estimated at 40 per cent; minimum deposit and lending rates have been raised from between 6.5 and 8 per cent to between 8.5 and 10 per cent. The maximum rate remains at 13 per cent, so the banks' margin will be squeezed.

An unresolved question is whether the IMF of the World Bank—which is conducting parallel negotiations with Nigeria on a proposed \$300m structural adjustment loan—will seek some reduction in the level of Government involvement in the banking sector.

In terms of Nigerian legislation, banks must be at least 60 per cent owned by Nigerians, which in practice frequently means the government owns 50 per cent or more.

Direct controls

However, the Government has not used its equity stake as a means of influencing banks, relying instead on complex and far-reaching direct controls. The last popular are probably the sectoral credit allocations setting down precise proportions of the banks' loan portfolios which must go to each sector.

The most notable development of the recent years of rapid expansion has been the relatively more rapid rise and development of the merchant banks, as opposed to the larger retail banks. Austerity, however, may count against them.

For example, in the severely restricted allocation of foreign exchange available for each bank to ration between its customers, the proportions have been decided according to the average level of business conducted by each bank over the last five years. As a result, the small new banks have been given practically no allowance at all.

Foreign loans it plans to draw down.

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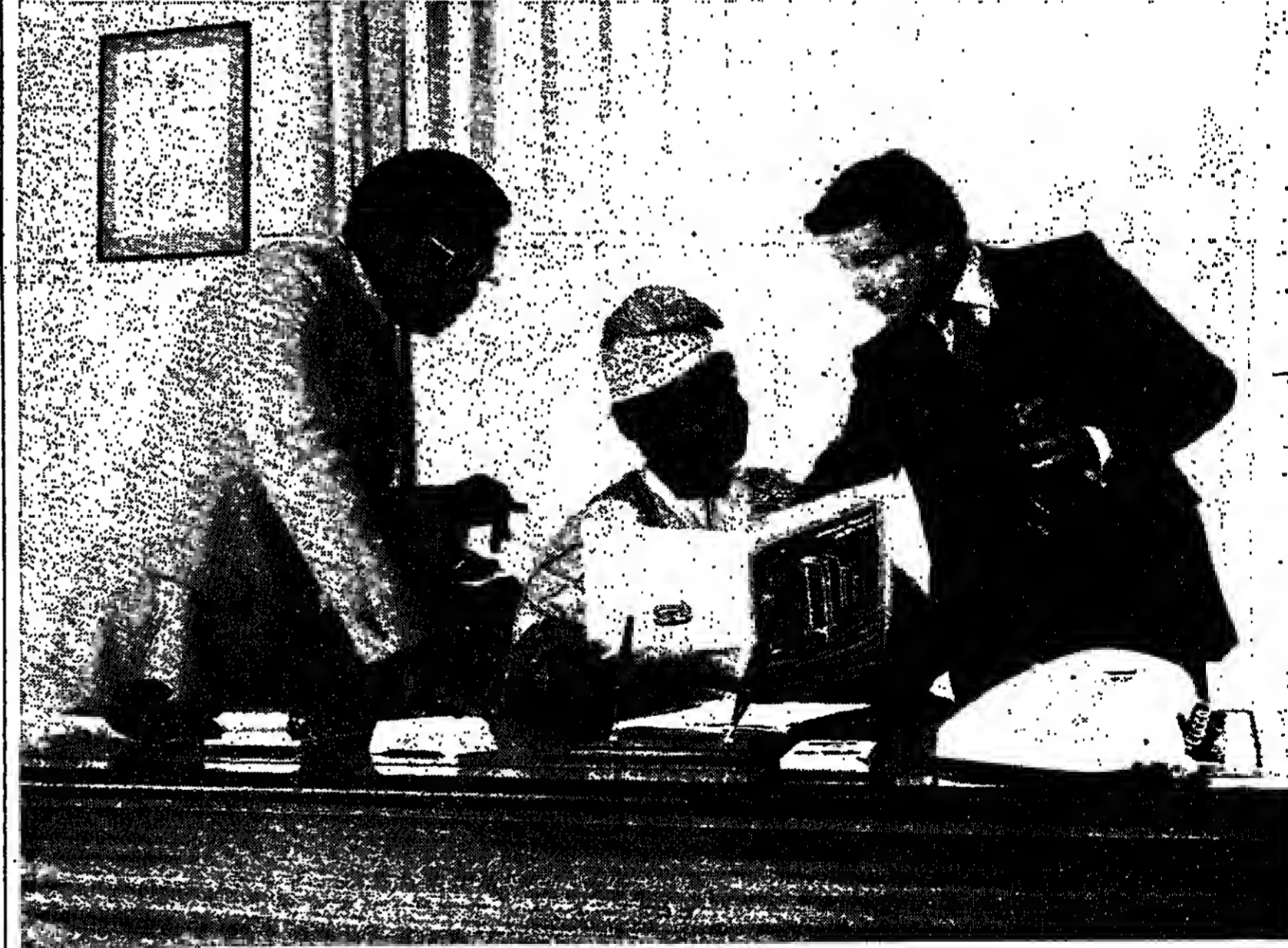
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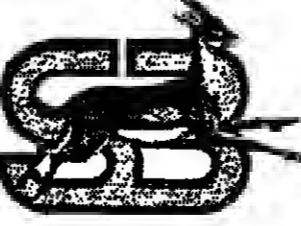
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NIGERIAN BANK FOR COMMERCE AND INDUSTRY

UNIQUE MULTI-PURPOSE BANK FOR THE SMALLER BUSINESS UNITS

Catalyst for Growth and Development

The Nigerian Bank for Commerce and Industry (NBCI), which was established in 1973, is a multi-purpose bank wholly-owned by the Federal Government of Nigeria. It is empowered by its enabling Act (the Nigerian Bank for Commerce and Industry Act 1973) to undertake all types of banking activities. The current activities of the Bank cover the following areas:—

- 1 DEVELOPMENT BANKING:
 - (a) Provision of long and medium term loan and equity finance to business establishments;
 - (b) Guarantee of foreign machinery credits; and
 - (c) Promotion of industrial projects;
 - (d) Handling documentary bills for collection;
 - (e) Underwriting of security issues;
- (f) Loan syndication; and
- (g) Equipment leasing.
- 2 MERCHANT BANKING:
 - (a) Transacting letters of credit business;
 - (b) Dealing in sundry credit instruments and commercial papers;
- 3 CONSULTANCY SERVICES:
 - (a) Undertaking of feasibility studies; and
 - (b) Provision of investment advisory services.

It is the Bank's intention eventually to go into limited commercial banking activities for the benefit of the Bank's Loan Clients only. NBCI has correspondent banking relationships with many major banks in the world and has branch offices in all the States of Nigeria. It is thus well-placed to link foreign businessmen with their Nigerian counterparts particularly those interested in the development of medium and small-scale enterprises.

HEAD OFFICE:

Nigerian Bank for Commerce and Industry,
26, Idejo Street, Victoria Island,
P.O. Box 4424, Lagos
Telephone: 632670, 632675, 632676, 632677, 614872, 632687
Telex: 21917 NIBACIND NG

BURGAN BANK S.A.K. Kuwait Balance Sheet As at December 31, 1983.

ASSETS	1983 KD	1982 KD	LIABILITIES	1983 KD	1982 KD
Cash and balances with banks	52,489,291	32,824,680	Demand, time deposits and other accounts	616,968,689	496,003,744
Money of call and short notice with banks	8,404,973	1,535,313	Including contingencies	—	—
Guarantee fund bonds	65,557,847	—	Certificates of deposit issued	11,707,648	10,854,103
Treasury bills	18,000,000	12,000,000	Proposed dividend	3,610,261	3,127,103
Bankers negotiable certificates of deposits at cost	—	1,640,114	Total liabilities	632,286,598	509,994,950
Quoted investments	6,859,422	8,044,462	SHAREHOLDER'S EQUITY:		
Deposits with banks	98,674,092	86,056,970	Capital—authorised and issued shares of KO 1 each:	—	—
Loans and discounts	383,644,984	372,904,037	Government of Kuwait	12,316,500	10,710,000
Unquoted investments	8,363,411	13,526,158	Private shareholders	11,833,500	10,290,000
Land and buildings at cost	19,395,386	7,100,000		24,150,000	21,000,000
Other assets	25,063,920	22,211,891	Less shares not subscribed	81,594	152,647
			Issued and fully paid	24,068,406	20,847,353
			Statutory reserve including share premium of KO 22,226,373 (1982—KO 20,456,112)	24,147,154	21,876,693
			Voluntary reserve	5,915,000	5,064,734
			Undistributed profits	56,168	61,895
			Total shareholders' equity	54,186,728	47,850,675
TOTAL ASSETS	686,473,328	567,848,625	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	686,473,328	567,848,625
Liabilities of customers for letters of credit, acceptances and guarantees	85,229,506	81,721,172	Letters of credit, acceptances and guarantees on behalf of customers	85,229,506	81,721,172
	771,702,832	649,569,797		771,702,832	649,569,797

Statement of Net Profit and Appropriations For the year ended December 31, 1983

	1983 KD	1982 KD		1983 KD	1982 KD
Net profit after charging expenses, provisions for contingencies, contribution to the Kuwait Foundation for the Advancement of Sciences, and transfers to inner reserves	5,002,000	4,518,475	Proposed appropriations:	—	—
Unappropriated profit at the beginning of year	61,895	73,067	Statutory reserve	500,200	451,848
	5,063,895	4,591,542	Voluntary reserve	850,266	903,696
			Shareholders—bonus issue of 15% (1982—15%)	3,610,261	3,127,103
			Directors remuneration	47,000	47,000
			Total proposed appropriations	5,007,727	4,529,647
			Unappropriated profit	56,168	61,895

All Jarrah Al-Sabah
Chairman and Managing Director

Basel F. Al-Sultan
Deputy Chairman

Abdulaziz A. Al-Jassar
General Manager



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WORLD BANKING 32

Major banking groups all advance in profits

South Africa

JIM JONES

SOUTH AFRICA'S banks are in the middle period of fundamental change.

Progressive deregulation and the ending of an inter-bank cartel have led to greater competition for business and market share: the banking industry is steadily moving into areas previously dominated by competing financial institutions; and the growth of electronic banking is gathering pace.

In the process each of the five major banking groups has reported strong profit advances, while large parts of the country's corporate sector are caught in the toils of recession. Any residual competitive restraints vanished in February 1983 with the termination, at the insistence of the Registrar of Banks, of the pricing cartel, the Register of Co-operation, better known by its acronym Roco. The demise meant that the banks were no longer prevented from paying interest on current accounts, and this was seized upon as a potent marketing tool in attracting customers and deposits.

Customers could be forgiven for bewilderment at the array of services spawned in the post-Roco competitive free-for-all. They were probably just as bewildered by the fact

the heightened competition, the added cost of paying interest on previously free current account balances and persistent complaints by bank executives that restrictions were narrowing margins to unacceptably low levels, have not been accompanied by any appreciable dents in the banks' profit growth rates.

In 1983 the major banks reported an average 25 per cent advance in disclosed after-tax profits against 38 per cent two years before. On the other hand the average return on assets of the major banks had increased to 1.07 per cent in 1983, against 1.04 per cent in 1982—and this progress was made during a year in which the South African economy went into reverse.

Liquid assets

In the main, profit advances resulted from increased business volumes which, in turn, were made possible by progressive deregulation of banking operations. Onerous liquid asset requirements have been steadily relaxed by the Reserve Bank and most banking sector analysts expect further liquid asset ratio reductions this year before the Reserve Bank switches to regulation based on cash reserve ratios.

Almost every relaxation of the liquid asset ratio requirements was seen as a move by the Reserve Bank to limit increases in lending rates. None-

theless, from a low of 14 per cent in 1983, minimum overdraft rates are currently standing at 21 per cent, with the exception of the 20.5 per cent quoted by Standard Bank. These are easily the highest real rates since before the 1939-45 war.

The result of deregulation has been a surge in lending, particularly as individuals borrowed their way through the recession, and a money supply running out of control. The growth in lending is amply illustrated by the fact that the total assets of Barclays National, the country's largest banking group, increased by 19 per cent in 1983 to R12.63bn.

Those of Standard and Volkskas were 15 per cent higher on the year. Bankorp registered a 14 per cent increase, and Nedbank a somewhat more pedestrian 5 per cent.

Competition has not been confined to traditional banking business. Rather, the main banking groups, looking over their shoulders at the inroads being made in the corporate lending sector by foreign banks, have pushed diversification programmes. No one wants to be left out of the mainstream of financial services, particularly since the authorities' determination to enhance the competitive environment should lead to a narrowing of the existing differences between the banks and the building societies.

In January this year, Ned-

bank, the third largest bank measured in terms of total assets, entered into a co-operation agreement with Allied, the third largest building society. The agreement embraces use of each other's automated tellers and branches as well as preferential treatment of the other's customers.

Ned bank's move was seen as a direct response to Barclays' decision to enter the mortgage business on its own account a year earlier. In addition it may well have been prompted by old Mutual, Nedbank's largest shareholder and South Africa's largest insurance group, which nervously watched Barclays acquire in December 1983 a 30 per cent equity interest in the third largest insurance group, The Southern, formed by the merger of Anglo American Life and SouthernLife.

Agreement

Earlier last year, Standard, the second largest banking group, acquired joint control of the controlling company of Liberty Life, the fourth largest insurance company. This followed an agreement between Standard and United Building Society (the largest in the country) similar to that between Nedbank and Allied.

Further down the line, Volkskas has for several years held a 50 per cent interest in Lesani and General's South African offshoot, while Bankorp, which has Trust Bank as its main subsidiary, is controlled by Sanlam, the country's second largest insurance group.

These acquisitions, and alliances elsewhere, are part of the extension of electronic banking and accounting systems throughout the industry.

In the next three years, by way of example, the banks, building societies and Post Office expect to treble the number of automatic teller machines in operation to approximately 3,000. That is being accompanied by the introduction of Saswitch, a company owned by a consortium which includes Standard, Barclays, Trust Bank and Allied.

Natal Building Society, Permanent Building Society and the Post Office will provide the computer infrastructure which will allow automatic branch sharing. Standard, United Building Society, Volkskas and the Post Office are linked in a competing system.

The large local financial institutions are having to hunk into one or other system almost willfully if they are to remain competitive. But they fear that Saswitch, which everyone agrees, will eventually be joined by Standard and its associates, will sharpen the competition.

Apart from anything else, local smaller banks with limited branch networks such as Indusue's South African subsidiary French Bank, as well as foreign banks, could link into the system; and that would give them greater marketing opportunities than exist at present.

Sharp contrasts in financial fortunes

North Africa

FRANCES GHILES

THE THREE Maghreb countries today present to the outside world sharply contrasted economic and financial faces. While Morocco struggles with a serious foreign debt rescheduling problem, Tunisia is making a major effort to prevent its foreign financial position from deteriorating.

Algeria, meanwhile, is tightening its belt as foreign oil and gas income declines and a budget in January based on an estimated fall in foreign income of about \$1.5bn. If events take a turn for the better, budgetary allocations can always be raised in mid-year.

The major Algerian banks are busy while concentrating on trying to improve their management, to become more specialised in the sectors they follow and to act as the guardians of orthodoxy where the financing of projects is concerned.

They occasionally make a foray into the market and the \$800m loan the Banque Nationale d'Afrique and the Banque Extérieure d'Algérie jointly raised last November provided ample proof of the market's appetite for Algerian paper.

As repayments schedules are presently very heavy, and Algeria has shown a capacity roughly to maintain its foreign income so far, bankers are greedy for more paper. There is little of it for credit worthy customers around in the Third World today. Tunisia, meanwhile, sometimes comes to the international capital markets but overall remains a cautious borrower. With debt service of 17 per cent, compared with Algeria's around 30 per cent and Morocco's 50 per cent, its prudence is well illustrated.

It has concentrated all its effort in recent years in obtaining money on concessionary terms: for this purpose a string of banks associating Tunisia and Arab funds have been set up in Tunisia where they are already playing an active role. The Saudis and Kuwaitis are also active investors in Tunisia. The former have shown themselves interested in the tourist sector and agribusiness while Kuwaitis have been investing in those industries based on phosphates and also real estate. Probably there are too many new joint Tunisian-Arab banks in view of the size of the Tunisian economy, but at least the money is flowing into an economy which has been chronically short of it.

Rapid change

Where the IMF and the Club of Paris are concerned, Morocco has moved forward much more swiftly. It has recently drawn a second tranche from the SDR 300m loan it relocated with the IMF last summer, the terms of which had to be renegotiated following the riots last January. These forced the Government to stall on a certain number of increases which would have further cut food subsidies.

The Club of Paris, meanwhile, agreed to reschedule 85 per cent of the \$1.15bn worth of government loan to Morocco, payment of which falls due between September 1 1983 and the end of this year. That agreement was signed last autumn. The foreign banks are, thus, the late settlers and they are only hoping they will reach some kind of compromise with the Moroccans before the month of fasting, Ramadan, which starts on June 1.

Morocco's external financial position looks like being a major cross for some years ahead. Better rainfall last winter may avert a fall in living standards, but the reeling in of the foreign trade deficit is being achieved at the cost of many jobs.

Furthermore, as the price of phosphates is picking up only slowly and the conflict over the future of the Western Sahara shows no sign of an early solution, a debt service ratio of about 45-50 per cent of exports and services is not going to improve dramatically.

The contrast with neighbouring Algeria where per capita income is about three times that of the Moroccans is sharp. Algeria certainly faces a tight financial situation, but the reduction in the foreign debt, now believed to stand around \$16.5bn and the growing re-lease to trade credits of loans from Arab funds means that shortage of foreign capital is the least of the worries of

Algerian leaders.

Indeed, changes in the running of the economy currently being implemented are proving very slow and cumbersome. Decentralisation has resulted in decisions taking even longer than two or three years ago. The presidential elections in January and subsequent appointment of a new Government also held up matters as did a long, drawn out campaign last summer and autumn.

But, expecting a decline in foreign income this year and faced with very heavy debt repayments—maybe as much as \$4bn—the government announced a budget in January based on an estimated fall in foreign income of about \$1.5bn. If events take a turn for the better, budgetary allocations can always be raised in mid-year.

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Historic link

So, although they are neighbours and share much which is common in their history—notably strong links with France because of former colonial days—the three Maghreb countries are travelling rather different roads at present. Morocco is saddled with a very serious debt problem which is unlikely to be solved either easily or quickly—even assuming agreement is reached on the role of its Central Bank plays in the final agreement with the foreign banks. Only a sharp rise in the price of phosphates or an end to the war—or the discovery of some gas or oil maybe—could

ease the foreign financial position of the Kingdom.

Tunisia continues to tread cautiously in the foreign financial front—avoiding mistakes such as the one made earlier this year when the doubling of the price of bread led to serious rioting throughout the country. Much here is predicted on the price of oil, a major export earner, tourist receipts and good rain.

Algeria, meanwhile, continues to run a very conservative financial and borrowing policy, concentrating on trying to lighten the weight of an extraordinary cumbersome bureaucracy and hoping to turn its agricultural sector around. That alone could curtail the growing cost of food imports which last year rose to more than \$2.5bn.

So, the irony remains. The bankers would prefer to lend to Algeria and Tunisia—and Tunisia trying to avoid too great a recourse to foreign loans, Morocco, which desperately needs new money is unlikely to get it in present circumstances, at least from bankers.

WORLD BANKING SURVEY

PART ONE of this survey appeared on Monday, May 21, 1984.

Major sections of Part One examined the international economy, the world debt crisis, the market and a review of individual countries in North America and Europe. In the section on the world economy, correspondents reported on the improvements expected this year; the trends in capital flows and the cut-back in U.S. lending abroad. Articles on the world debt crisis examined rescue pro-

grammes and the work of the International Monetary Fund and the World Bank.

In a review of the markets, writers reported on the inter-bank market; Euromarkets and syndicated loans; Eurobonds; foreign exchange; the gold market; and financial futures.

The complete FT survey on World Banking will shortly be reprinted as a booklet, price £2. Full details and an order coupon appear on Page 20 of this Survey.

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